A Decade of Light and Shadow

Latin America and the Caribbean in the 1990s

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Editors

UNITED NATIONS

CEPAL
ECLAC

Economic Commission for Latin America and the Caribbean (ECLAC)

Santiago, Chile, July 2003

Libros de la CEPAL

76

The final version of this book was coordinated by José Antonio Ocampo, Executive Secretary of ECLAC and Juan Martin, former Director of the ECLAC office in Buenos Aires, with the collaboration of Reynaldo Bajraj, Deputy Executive Secretary. Individual chapters were written with the collaboration of Gabriel Aghón, Hugo Altomonte, Alicia Bárcena, Alfredo Calcagno, Beatriz David, Hubert Escaith, Ricardo Ffrench-Davis, Len Ishmael, Ricardo Jordan, Jorge Katz, Michael Mortimore, Edgar Ortegón, Ernesto Ottone, Juan Carlos Ramírez, Osvaldo Rosales, Pedro Sáinz, Fernando Sánchez-Albavera, Miguel Solanes, Ian Thomson, Andras Uthoff, Vivianne Ventura-Dias and Miguel Villa. Many staff members also assisted with contributions and comments, among them Eduardo Chaparro, Jaime Contador, José Durán, Myriam Echeverría, Ernesto Espíndola, Rolando Franco, José Javier Gómez-García, Johannes Heirman, Gunther Held, Jan Hoffman, André Hofman, Martín Hopenhayn, Keiji Inoue, Felipe Jiménez, Mikio Kuwayama, Arturo León, Juan Carlos Lerda, Luis Lira, Ricardo Martner, Sandra Manuelito, César Morales, Guillermo Mundt, Georgina Ortiz, Marcelo Ortúzar, María Ángela Parra, Wilson Peres, Nieves Rico, Iván Silva-Lira, Giovanni Stumpo, Raquel Szalachman, Pedro Tejo, Daniel Titelman, Alejandro Vargas and Jürgen Weller.

Cover design: Andrés Hannach

United Nations Publication
ISBN: 92-1-121401-7
LC/G.2205-P
Sales No. E.03.II.G.79

Printed in United Nations, Santiago, Chile

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Foreword

The 1990s were unquestionably a time of transition and reorientation in several aspects of Latin America and the Caribbean's economic, social and political development. As in any period with these characteristics, the effects of long-standing processes mingled and interacted with incipient change. When the decade ended, ECLAC wished to contribute to the evaluation of the main events that marked the consolidation of reform in the region, recognizing of course that the speed of progress varied from country to country and from sector to sector.

This publication offers an analysis of the international situation and the connections between this and the region; of new approaches to macroeconomic management, and the effects of these; of the development of production activities, both in the industrial, mining, agricultural and forestry sectors and in services; of developments in the social sectors, including trends in employment, poverty and income distribution, gender equity, the demographic transition, public social spending and social sector reforms; of the creation of sustainable development potential and territorial restructuring; and of economic and social developments in the English-speaking countries of the Caribbean.

As the title indicates, the picture is one of light and shadow, progress, stagnation and reverses: a chiaroscuro that not only gives a more realistic idea of the events of the period, but provides the basis for a more subtle appreciation of the main issues that are emerging on the regional horizon.

José Antonio Ocampo
Executive Secretary, ECLAC

Introduction

The most salient feature of the international situation in the 1990s was undoubtedly the consolidation of the globalization process. The heightening of United States supremacy, progress in creating a European bloc capable of playing a visibly assertive role on the world stage, rapid economic growth in China and India and headlong change in the former socialist countries were key aspects of this process. These changes were accompanied by the gradual construction of global markets. Although it was in the financial markets that the greatest integration took place, trade and investment flows expanded as well, and there was increasing diffusion of technological innovations originating chiefly in the developed countries. This process is still far from complete in goods and services markets, however, and labour mobility generally continues to be restricted. Meanwhile, greater interaction among sovereign States was not confined exclusively to economic issues. The 1990s also saw the gradual spread of ideas and values relating to human rights, political democracy, social development, gender equity, respect for ethnic and cultural diversity and environmental sustainability. Although undeniable progress has been made in all these fields, effective, concrete measures are only just beginning to be applied.

An understanding of international developments in these different areas is essential if the changes seen over the decade in the countries of Latin America and the Caribbean are to be placed in perspective.

Politically, although certain countries still evince great and, in some cases, growing weaknesses, the main development was the spread of democratic government and the opening up of new channels for the exercise of citizenship. In the economic sphere there were profound reforms, centering on increasingly open trade, liberalization of domestic financial markets and external capital flows and a leading role for private enterprise in the production of goods and, increasingly, in the provision of public services and social benefits.

These changes, of course, took place in a region whose countries vary in size, structure and development level and in their institutional characteristics, so that while their economic behaviour in the 1990s showed common patterns, there was considerable diversity as well. Thus, the substance of policy varied from one country to another in matters as important as the scope of privatization and the rules applying to capital movements, and there were wide variations in the approaches taken to economic restructuring. Within a general framework of liberalization, the countries' production structures differed in their orientation and in the way they connected to the international economy. Broadly speaking, three specialization patterns can be differentiated in the region. In Mexico and some Central American and Caribbean countries, trade with the United States exercised a greater influence, and this was reflected in the export dynamism of manufactures incorporating a large component of imported inputs. In the countries concerned, this process was accompanied to a greater or lesser degree by a proliferation of productive linkages with the rest of the industrial system, and a rise in the volume of traditional or newly diversifying exports. In South America, by contrast, the influence of the United States economy on the goods and services trade pattern was less marked. Here, increased activity in foreign trade-oriented sectors involved natural-resource intensive goods and a more diversified set of exports within subregional integration schemes. Some countries also exported some labour-intensive manufactures and some quite technology-intensive products outside the area. A third pattern, which is characteristic of some Caribbean countries and Panama, is based on exports of services (primarily tourism, but including financial and transport services as well).

When developments in the region during the 1990s are reviewed, it needs to be borne in mind that not only did national situations differ, but perceptions did not remain constant over the period either. The dominant view of events shifted as the decade wore on. In the early years, there was a quite widespread feeling of euphoria in most of the countries. Changes in the terms of access to international credit markets (lower interest rates and renewed capital flows into the region), the restructuring of several countries' external debt under the Brady Plan, lower inflation and economic recovery (with some exceptions in the early years, particularly Brazil before 1992) contributed to a perception that the 1990s were going to differ greatly from the "lost decade", which had been dominated by the debt crisis and the consequences of the severe adjustment and stabilization programmes adopted. This initial success, however, produced at least two undesirable results. Firstly, it nourished simplistic views of extraordinarily complex problems of institutional transformation requiring sustained, coordinated effort. Secondly, eagerness to expand the role of the market gave rise to an attitude that discouraged collective action of any kind, and this went so far as to affect even areas where there was a recognized need for the public sector to renew and enhance its role, including traditional government functions and social policy.

The events of late 1994 in Mexico, and the consequences of these for the other countries in the region, showed how vulnerable these economies were and at the same time called into question the simplistic view that reform would automatically lead to improved economic performance. Even before this, however, the need to attend to areas that reform had neglected, and to correct some of its unwanted effects, had already begun to be pointed out. The events referred to created a stronger and more widespread perception of this need. Nonetheless, while Mexico was obviously affected by the 1994 crisis, and Argentina was as well, the rest of the region escaped relatively unscathed. The limited extent of the crisis meant that while doubts were raised about the real soundness of the prevailing economic ideas, the effects on economic management in the vast majority of the countries were not great, and the incentive for change was reduced yet further by the strong recovery in economic growth in 1996-1997.

The crisis that began in certain Asian countries in 1997, and the financial problems subsequently suffered by other countries, had far more widespread and persistent effects in the region and consequently produced significant changes in the perceptions of economic agents, particularly in South America. The threats to social stability and the travails of democratic institutions in some countries, the climate of economic recession in 1998-1999 and the constraints experienced by a number of economies in their search for the path of sustained growth all help to account for this change. Towards the end of the 1990s, the feeling that generally prevailed was one of pessimism and bewilderment, in marked contrast to the early part of the decade. Out of this grew a perception that what was needed was a medium- and long-term vision capable of guiding efforts to build the future in the different countries and subregions of Latin America and the Caribbean and of helping to orient responses to different scenarios.

In *Equity, Development and Citizenship* (ECLAC, 2000a), ECLAC carefully considered how current approaches could be reoriented as part of a comprehensive vision of development. The analysis included in the present book, which lays more emphasis on the interpretation of recent history, also supplies information of value for this task.

Chapter I looks at the main changes that took place in the international and regional economies. The global situation was one in which world economic dynamism was weaker than in previous decades, economic power became more concentrated and income distribution inequalities worsened, both among and within countries. The main achievements in the region were substantial trade growth and success in capitalizing on the greater availability of technological and financial resources resulting from higher foreign direct investment and a boom in various financial instruments. These positive changes, however, also brought weaknesses to the regional situation, partly because of the global dynamic, partly because of national policies. These weaknesses were reflected in trade and investment, but principally in the financial market. "Volatility" and "contagion" have been the terms most used to describe the main features of financial market behaviour. These characteristics, which led to frequent currency and financial crises, gave rise to a number of initiatives to reform the international financial system, an unfinished and still urgent task. In the region, the main events were economic reform and the advance of democratization. On the economic front, there was significant convergence in the orientation of economic reforms. The need to build on what had already been achieved, however, gave rise to a growing conviction that there were no easy, one-off solutions to be had. Perhaps the common feature was a conception of public life that transcended the sphere of the State as such, an approach that opens up opportunities for citizen participation and provides the basis for progress in resolving the crisis of national States and correcting both market and government failures. Again, the wide-ranging democratization process seen in the region was characterized by the acceptance of pluralism, increasing respect for civil and political rights and the election of authorities as the basis for the operation of the political system. These achievements, however, were not free of the shortcomings that are common to democratic systems the world over but that, for a number of reasons, particularly affect the region. Consequently, major efforts still need to be made to strengthen democracy by making the system more inclusive and by nurturing real citizenship.

The connections between the region and the rest of the world are the subject of chapter II. The changes touched upon meant that growth in the countries of Latin America and the Caribbean came to depend heavily on the extent and quality of the region's participation in the world economy. The strategy of open regionalism made it possible to combine unilateral liberalization with negotiations in different forums to promote the liberalization of markets of concern to the region where old and new forms of protection still applied. Again, while net resource transfers into the region were positive in virtually every year of the decade, the volatility of capital flows varied from case to case. Foreign direct investment, for example, rose steadily. These large investment flows, most of which were from Europe (chiefly Spain) in the latter part of the decade, were driven by the different strategies pursued by transnational companies within the new global and regional context. Labour force mobility also increased, although it was subject to greater constraints. The main achievements in this area were export and foreign direct investment growth in a number of countries, renewed trade and investment growth within subregional integration schemes and the signing of numerous free trade agreements with other countries and regions. The main weaknesses were the region's lack of export diversification, its low share of world trade, the numerous barriers that still hindered trade and the adverse effects of financial volatility on the dynamic of commercial transactions. The business restructuring that went on at the same time was characterized by the adoption of mainly defensive strategies by local companies, decreasing levels of internal linkage among the activities of transnational corporations and growth in profit remittances by such corporations. The most important of the tasks still ahead is to find ways of improving national and regional negotiating capabilities. Renewed public action of this kind, however, will have to contend with new challenges and constraints. Nationally, there is the need to produce effective development policies and regulations. Subregionally, there has to be greater macroeconomic coordination, and regulations will need to be harmonized in different economic, social and environmental fields. Internationally, developing countries should be seeking greater involvement in the design of global institutions and regulatory frameworks.

Chapter III concentrates on analysing the macroeconomic management methods prevailing in the countries of Latin America and the Caribbean, and the effects that these have had on economic performance. It also looks at how national financial systems reacted to the two crises that affected the region during the decade. The main achievements in this area included the taming of inflation and the correction of fiscal imbalances, two problems that had been endemic since the 1970s, while confidence in government management among domestic and external economic agents increased. Progress as regards economic growth, productivity and external vulnerability, however, was frustratingly slow. Although economic activity and investment levels improved on the very poor performance seen during the “lost decade”, economic growth rates were only modest when compared with those of the three decades preceding the debt crisis. Recovery, furthermore, was not only weak but unstable, owing to the macroeconomic management styles adopted at a time of great volatility in the financial markets. Against this background, total factor productivity grew more slowly than was necessary to close the gap with the developed world to any significant degree. The trend of economic activity, furthermore, reflected a high degree of dependence on the vagaries of external financing. Other manifestations of this dependence were the greater sensitivity of the trade balance to economic activity levels and the tendency for domestic saving to be replaced by external saving. One important consequence of this was the frequency of domestic banking problems, which consumed enormous fiscal and quasi-fiscal resources in several countries. Accordingly, there is a need for regulation and prudential supervision to be strengthened further. Two other key requirements can be identified. The first is to adopt more active macroeconomic management procedures that use the instruments available more consistently and flexibly and take a preventive approach during the upswings of the economic cycle. The second is to implement a “liability policy” aimed at ensuring that an appropriate maturities profile is maintained with respect to both domestic and external public and private commitments.

Chapter IV looks at changes in the structure and behaviour of goods-producing sectors. Owing to the impact of the economic reforms and the working through of longer-term processes, the relative composition, productivity, competitiveness and profitability of agriculture sector activities underwent major changes. At the same time, heterogeneity increased and new agents came to the fore within a context of profound change in sectoral competition conditions. In the case of mining, latent potential was strongly developed, although the degree of domestic processing applied to the products concerned fell in relative terms. In both sectors, progress was qualified by unfavourable movements in the international prices of many products and, in the case of agriculture, by market access restrictions in industrialized countries. Developments in manufacturing industry, meanwhile, were heterogeneous. In the South American countries, sectors producing tradable goods generally contracted and industrial output grew by less than total GDP, in marked contrast to the pattern seen over the three decades prior to 1980. As against this, in Mexico during the second half of the 1990s, and in a number of Central American and Caribbean countries, manufacturing branches maintained or increased their share of total output. The productivity gap with the developed world was not reduced systematically, and indeed grew wider in many countries and sectors.

Overall, the restructuring of these production sectors did not strengthen them sufficiently. The tasks still ahead include introducing more technology and know-how into all production chains while at the same time improving systemic competitiveness.

The profound structural changes which affected service infrastructure sectors in the 1990s are analysed in chapter V. New providers came into the telecommunications, energy, sanitary services and transport sectors, most of them transnational corporations, along with a few large local conglomerates. The greatest changes were seen in energy and in telecommunications, the latter being a sector in which technological innovation was extremely rapid worldwide. In the water and sanitation sectors, there was a tendency for infrastructure and services to be franchised out, although the public sector continued to play an important role in the provision and, to an even greater extent, in the financing of services. Widespread as these tendencies were, services restructuring gave rise to a great variety of models that differed not only from one sector to another, but also from one country to another for the same sector. This diversity is explained by differences in the size and structure of markets, the real degree of competition that it was possible to introduce, the appearance of new products and services, the level of coverage and quality, and the environmental impact of different measures. Generally speaking, achievements included the extension and modernization of a variety of services, improved productivity both in these sectors and in the rest of the economy as a result of developments there, and the ability of some governments to attract substantial private investment, although in quite a number of cases this involved giving substantial profitability guarantees to the new agents. Particular mention should be made of the improvements achieved in the management of services, even where these were not privatized, as a result of clearer distinctions being drawn between the functions of sectoral development policy-making, regulation and services operation. The most common shortcomings were the absence or inadequacy of general rules to provide a framework for individual contracts, gaps in legal provisions and the deficiencies of regulatory bodies, which in some cases made the reforms rather unstable and resulted in returns being generated for certain sectors in ways that involved asset and revenue transfers. Continued progress with any aspect of service provision will involve dealing with the current regulatory deficit, something that largely entails strengthening institutions and improving information transparency. The rights and obligations of public- and private-sector service providers, governments and users also need to be better balanced.

The social sectors, which are the subject of chapter VI, are the area where the greatest shortcomings can be perceived, and where most remains to be done. Developments over the decade show how little the benefits of economic recovery and restructuring have spread through society, and reveal increasing heterogeneity. The most visible signs of this are the rise in open unemployment in several countries and the even more widespread decline in employment quality, which have prevented the region from making productive use of the "demographic bonus" resulting from relatively rapid growth in the working-age population and a decline in family dependency rates. On the social front, the most important achievement was the increase in public resources channeled into social spending, bringing this back up to the levels seen before the debt crisis. There were also improvements in the criteria and procedures for allocating social spending. Where criteria were concerned, the main improvement was in selectivity, as almost half of all social spending went to primary and secondary education, health and nutrition. Since demand for these services is disproportionately high in the lowest-income households, the result was greater progressivity. As regards allocation procedures, more decentralized systems were introduced and use began to be made of results-oriented management contracts and evaluation techniques based on indicators measuring the performance of public bodies. In a number of countries, private participation schemes were also developed for the provision of some social services. Although some progress was made with efficiency, private-sector suppliers generally concentrated on higher-income or lower-risk sectors, and this tended to undermine the principles of universality and solidarity. As regards poverty, there was a gradual decline from the high levels inherited from the 1980s, although this tailed off after the last crisis. The end result was that relative poverty levels were still higher at the end of the 1990s than in 1980, and population growth and an increase in the size of poor households meant that the number of people in this situation grew. Poor households became more concentrated in urban areas, although in relative terms the highest levels of poverty, and particularly of indigence, were still to be found in rural areas. Income distribution continued to worsen as well, with some exceptions. Thus, economic recovery, lower inflation and higher public social spending were not enough to improve social equity. Progress was made with gender equity, however, although not to the extent that might have been wished.

Chapter VII looks at progress in creating opportunities for sustainable development. The 1990s began with major changes in the international environmental agenda. The turning point was the "Earth Summit" (Rio de Janeiro, 1992), which laid the basis for a new world vision of sustainable development and for global conventions on emerging issues such as biological diversity and climate change. In the course of this process, awareness of the environmental aspects of development, which had always been limited or even non-existent in the region, gradually percolated into the public and private spheres. As a result, institutions and government policies and strategies to promote sustainable development were created, and the issue began to feature in education, culture and the communications media. More recently, the subject has also been incorporated into subregional cooperation agreements and has influenced the practices of economic agents, particularly large firms. Despite these advances, many sectors continue to view the principles of environmental protection and sustainable development as a constraint on economic progress. As a result, and despite the achievements referred to, the ability of the public sector to check the increasing environmental damage being done to critical ecosystems and to control pollution has been limited. The bulk of the explicit environmental policies now applied are reactive in nature, as are the direct and indirect regulation instruments used in the region. Prevention and incentive policies to link improvements in environmental quality to industrial competitiveness have received much less attention. Again, environmental institutions are only just beginning to develop the capabilities they need to achieve the goals laid down in terms of effective trans-sectoral and subregional policies and to establish the countries' international negotiating position. The consequences of these institutional shortcomings are particularly serious in cases where environmental damage is linked to national and subregional export structures and economic strategies. The most salient examples of this are provided by some new issues to which increasing attention is being paid in the international debate, such as biosecurity and the trade in genetically modified organisms, as the countries of the region are having to deal with transnational agents that are very well equipped to defend their interests.

Chapter VIII contains an analysis of economic and social developments in the countries of the English-speaking Caribbean, a subregion that has special characteristics in a number of areas. The reforms initiated in the 1980s, the thrust of which was to make the subregion's economies more open and to correct the external and internal imbalances inherited from previous decades, began to show results in the 1990s in the form of economic recovery in a number of the larger countries and steady growth in the smaller States. At the same time, efforts to create a single market and economic area were intensified. The Caribbean Community (CARICOM) welcomed new members, and its commercial and economic relationships were extended to some Latin American countries. In the social sphere, a continuing emphasis on equity was reflected in spending on education, health and poverty relief that generally exceeded the average for Latin America. Considerable progress was also made with gender equity. In another area, the adoption of the

Programme of Action for the Sustainable Development of Small Island Developing States focused the attention of policy makers on this issue. There are a number of weaknesses, however, that this progress has not been able to overcome. The economies of the subregion are undiversified, a large proportion of their exports is accounted for by a few products whose international market prices are very volatile, and trade preferences have been eroded. Furthermore, these countries' land and sea ecosystems are often highly vulnerable to human action and to the natural disasters which frequently strike the subregion, and their small size and insularity increase the costs of doing business. The main challenge for the subregion in the coming years will be to adjust to the new liberalization conditions laid down by the Association Agreement with the European Union, which replaced the fourth Lomé Convention, and to the growing threats to its exclusive preferential access to the United States and Canadian markets.

Chapter IX, lastly, looks at the restructuring of national territories. The region's inhabitants settled new areas and moved between existing population centres, changing distribution patterns within countries. Economic activity went into crisis in some areas while in others it was vigorous, so that production was relocated on a large scale. As the countries in the region continued to urbanize rapidly, large cities showed their ability to adapt to the unfavourable socio-economic developments of the 1980s, but severe weaknesses remained. Thus, several of the region's metropolitan areas became global cities, increasingly focused on the provision of services to companies and acting as business centres within the global economic system. The importance of medium-sized cities in supporting urban growth was also confirmed. The rural population remained very scattered, and this continued to limit its access to services, hinder interaction with the public sector and fuel emigration. Another noteworthy feature of the 1990s was the quickening pace of decentralization. In the political sphere, the number of unitary countries with directly elected local authorities increased. A very important endogenous change that accompanied this was the increase in the influence of social actors operating at a subnational level. In the economic sphere, the evidence shows that spending was decentralized most, while subnational tax collection and fiscal modernization proceeded more slowly. Decentralization as it now stands is also unsatisfactory and incomplete. The evidence available confirms both the need to strengthen the institutions and human resources that decentralization requires and the advisability of creating follow-up and evaluation systems to monitor this process.

Chapter I

The global and regional context

The 1990s saw sweeping changes in international relations. The ending of the Cold War profoundly altered the climate of international affairs among sovereign nations, while the intensification and increased visibility of several localized conflicts gave rise to international tensions very different in nature to the kind of confrontation that had been the norm up until the end of the 1980s.

While these trends had started to emerge in the 1970s, they strengthened significantly in the 1990s, owing particularly to the profound changes in the socialist world, which intensified after the fall of the Berlin Wall. The 1990s were marked by an increase in the military supremacy of the United States, by European attempts to create a bloc capable of playing a leading role in world politics and by the sudden transformation of the socialist countries.

The current phase of globalization has economic and financial characteristics that, while new, are also part of a longer historical process. This process has set the stage for the world economy to become, over time, a single network of markets and production, rather than just an aggregate of national economies linked by trade, investment and financial flows. Thus, the economies of different States have undergone major changes that have alternately boosted and slowed economic activity in the developing countries.

Globalization is closely linked to the rapid spread of technological innovations, most of them generated in the developed countries. This phenomenon has penetrated almost all economic sectors, not only because of the abundance and diversity of innovations, but also because of the way these have been spread horizontally by activities that affect practically all production and service sectors. Changes in information and communications technologies are the prime example of this, as their very nature has made them at once a vehicle and a catalyst for the spread of innovations. Similarly, the impact of developments in metallurgy and biotechnology has been felt in some very large and, apparently, heterogeneous subsets of the production spectrum.

The 1990s were also witness to the gradual spread of global ideas and values relating to the two facets of human rights —civil and political rights, on the one hand, and economic, social and cultural rights, on the other— and to social development, gender equity, respect for ethnic and cultural diversity and sustainable development. Much of the convergence of outlook achieved on these issues emerged at the global summits organized by the United Nations.

It is within the framework created by these developments that events in Latin America and the Caribbean in the 1990s have to be understood. At the political level, democracy spread and new citizen participation structures emerged although these important achievements were not free from problems and shortcomings. Throughout much of the region's economy, meanwhile, thorough-going reforms were introduced, the thrust of these being to free up trade and liberalize national financial markets and capital flows with the outside world.

1. Loss of world economic dynamism and rising inequality

(a) Economic dynamism

In the 1990s, world economic growth was a mere 2.4%, the lowest rate recorded in any decade since the Second World War. To a very large extent, this average reflects the sluggish performance of the developed countries (2.2%), the sharp contraction in Eastern Europe (-3.6%) and slow growth in Africa (2.2%). On the other hand, Asia recorded strong growth rates (6.5%) and improvements were noted in Latin America and the Middle East, where annual growth rates were 3.2% and 3.3%, respectively, as shown in table I.1.

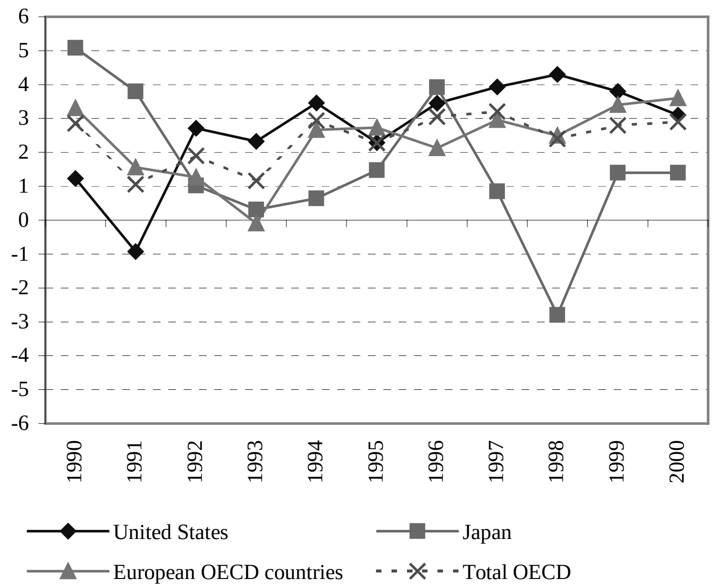
Table I.1
ANNUAL GROWTH RATES, SELECTED PERIODS
(Percentage estimate obtained by regression analysis)

Average GDP growth rates	World	Developed countries	Developing countries	Latin America	Africa	Asia	Middle East	Eastern Europe
1950-1960	4.4	4.1	5.1	4.9	4.5	5.7	5.7	9.2
1960-1973	5.1	5.0	5.5	5.5	5.0	5.2	7.7	6.7
1973-1980	3.4	3.0	5.3	5.1	3.5	6.2	4.8	4.3
1980-1990	3.1	3.1	3.7	1.4	2.5	6.8	1.5	2.6
1990-1999	2.4	2.2	4.7	3.2	2.2	6.5	3.3	-3.6
Average per capita GDP growth rates								
1950-1960	2.8	2.8	2.8	2.2	2.0	3.6	2.9	8.2
1960-1973	3.1	4.1	3.0	3.3	2.5	2.9	4.8	5.5
1973-1980	1.6	2.3	3.0	2.3	0.3	4.2	1.9	3.3
1980-1990	1.4	2.0	1.6	-0.1	-0.1	4.9	-1.6	1.9
1990-1999	0.8	1.8	2.6	1.3	-0.4	5.4	1.0	-3.8

Source: ECLAC, on the basis of figures taken from the following yearbooks: United Nations, *World Economic and Social Survey*, New York, and *Demographic Yearbook*, New York; United Nations Conference on Trade and Development (UNCTAD), *Handbook of International Trade and Development Statistics*, Geneva, and *Trade and Development Report*, Geneva; International Monetary Fund (IMF), *International Financial Statistics Yearbook*, Washington, D.C.; Economic Commission for Europe (ECE), *Trends in Europe and North America: Statistical Yearbook of the ECE*; and Economic Commission for Latin America and the Caribbean (ECLAC), *Statistical Yearbook for Latin America and the Caribbean*, Santiago, Chile. The developing countries do not include Eastern Europe. Regional aggregates are calculated in constant 1995 dollars.

Among the developed countries, there was a marked contrast —especially after 1992— in relative growth patterns between countries, in particular between the performance of the United States, on the one hand, and that of Europe and Japan, on the other (see figure I.1). The United States recorded 3.1% annual growth over the decade, with expansion accelerating in the second half, when annual rates were of the order of 4%. On the other hand, Japan, which had typically recorded high growth rates in the postwar era, averaged only 1.1% per year during the decade, with negative rates in 1998. Europe, with a rate of 2.3%, was close to the world average, a sharp fall in the early years of the decade being followed by renewed growth from 1994 onward.

Figure I.1
GDP GROWTH IN THE MAIN OECD COUNTRIES, 1990-2000
(Percentages)



Source: Organisation for Economic Co-operation and Development (OECD). Economic Outlook Database, 2001.

The growth patterns of the developed countries were marked by major macroeconomic disequilibria. Even the United States, which combined the strongest relative growth with low unemployment (4.2% in 1999) and successfully turned its chronic fiscal deficit into a surplus, had a large and growing trade deficit and, from 1998 onwards, low household savings rates as well. The legacy of Japan's financial crisis was a seriously weakened banking sector, a private sector with a low propensity to spend, a lower investment rate, higher unemployment (up from 2.5% in 1985-1995 to 4.6% in 1999) and rising public debt, as the public sector took it upon itself to sustain demand by running (fiscal) deficits year after year (3.4% of GDP in 1997, 6.0% in 1998 and 7.6% in 1999).

The need for macroeconomic convergence to strengthen the European Union (EU) was the dominant theme in Western Europe. Under the Maastricht Treaty (1992), limits were set not only on budget deficits and public debt, but also on the amount by which the inflation rate in any country could vary from the EU average. Subsequently, under the

Amsterdam Treaty (1997), the Stability and Growth Pact was established as a medium-term macroeconomic policy convergence mechanism for countries wishing to enter the euro zone (European Monetary System). Within the same framework, progress began to be made in addressing the problem of unemployment, which averaged around 10% in the EU countries in the 1990s. In Luxembourg (1997), measures to coordinate EU employment policy guidelines with national plans of action were agreed upon. In Cardiff (1988), emphasis was placed on the need to standardize structural reforms in labour, product and capital markets against a background of sound fiscal policy, with a view to promoting European competitiveness and eliminating the remaining restrictions and regulations. Under the Employment Pact (Cologne, 1999), a biannual conference of ministers of economic affairs and labour was set up to examine growth and employment issues.

Developing countries, including the transition economies of Eastern Europe, entered the 1990s with widely varying growth rates, as shown in figure I.2. The South-East Asian nations, together with China and India, displayed buoyant growth, the most notable case being China, whose output expanded by 150% between 1990 and 1999. As is well known, the severe crisis that struck four major South-East Asian countries in 1997 and 1998 seriously disrupted international financial markets.[1] Latin America, the Middle East and Africa recorded moderate growth rates throughout the decade, while Eastern Europe contracted sharply (although there were marked differences between individual countries). Thus, with the exception of Asia, the per capita income gap between the developing world and the developed countries widened during this period.

Another notable trend in the 1990s was the significant decline of inflation in different groups of countries, especially those of Latin America. In this region, inflation fell from an annual average of 670% in 1990-1993 to a single-digit rate in 1999.[2] Less spectacular, but also significant, was the fall in inflation rates in the industrialized countries from about 12%, 9% and 5% in Europe, the United States and Japan, respectively, in 1981 to approximately half those levels in the early 1990s and then, in 1998-1999, to between 1% and 2% in the United States and EU and to less than zero in Japan. This trend reached critical proportions during the recent international financial crisis, when falling nominal prices for manufactures and many raw materials prompted some pundits to warn against the risks of global deflation.

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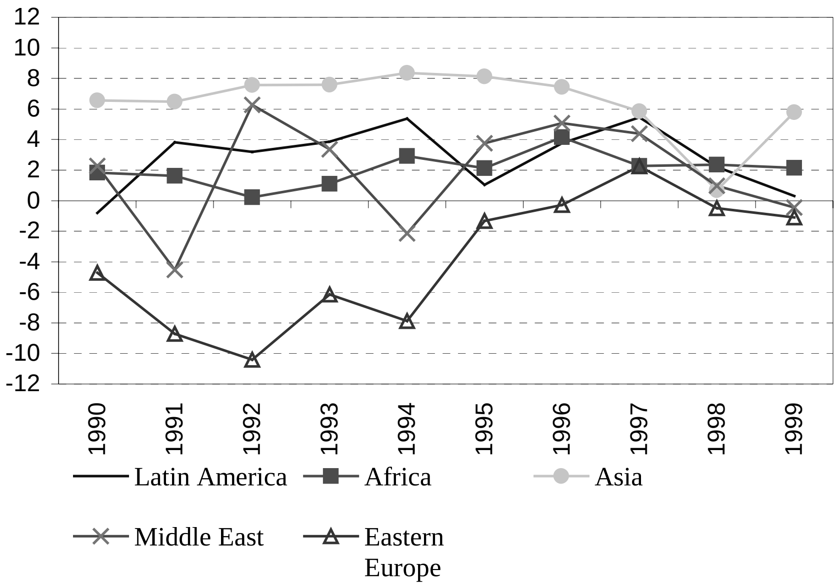
1 By 1999, these countries, with the exception of Indonesia, had already made a strong come back. For an analysis of the Asian crisis, see ECLAC (1998a).

2 This is a population-weighted average of national changes in the consumer price index.

Figure I.2
GDP GROWTH IN THE MAIN DEVELOPING AND TRANSITION REGIONS, 1990-1999
(Percentages)



Source: Estimates based on figures from the Economic Commission for Latin America and the Caribbean (ECLAC), International Monetary Fund (IMF) and United Nations, *World Economic and Social Survey*, New York, for the period 1990-1998, and from ECLAC, LINK Project and *World Economic and Social Survey*, New York, for 1999.

(b) Growing inequality

Several analysts have pointed to the sharp disparities in world income distribution that existed in the early 1990s, when the Gini inequality index stood at over 0.6[3] (Chotikapanich, Valenzuela and Rao, 1997; Bourguignon and Morrison, 2002; Milanovic, 1998; and UNDP, 1999a). A recent study (Milanovic, 1999) also shows that, among a sample of 91 countries, these disparities increased by 0.006 points per year in the early part of the decade, or, to put it more clearly, the ratio between the average incomes of the highest-income 5% and the lowest-income 5% in

[3] An index value of zero represents perfect equality, while 1 denotes absolute concentration.

the world distribution rose from 78 to 1 (1988) to 114 to 1 (1993).[4] The figures also show that, in 1993, a citizen whose income was the average for the lowest decile in the United States was better off than two thirds of the people in the world.

As table I.2 shows, differences between countries accounted for 88% of income disparities. The largest countries, situated at one or other extreme of the world income distribution, were the ones that contributed most to the increase in inequality, a configuration that has been described as "the twin peaks" (Quah, 1997). One of these extremes was represented by the rural and urban population of India and Indonesia and by the rural population of China, which accounted for 42% of world population but only 9% of world income. At the other extreme were France, Germany, Japan, United Kingdom and the United States, which had 13% of the world's population but 45% of world income. Countries with large populations but medium income levels, such as Brazil, Mexico and Russia, or low incomes, such as Nigeria, also contributed, albeit to a lesser extent, to the disparity in world income distribution.

Table I.2
WORLD INCOME INEQUALITY, 1988 AND 1993
(Distribution of population by per capita income)[a]

	Gini 1988[b]	Gini 1993[b]
Inequality between countries	55.1 (88%)[c]	57.9 (88%)
Inequality within countries	1.3 (2%)	1.3 (2%)
Residual component[d]	6.4 (10%)	6.8 (10%)
Total inequality	62.8	66.0
Number of countries	91	91
Average per capita income	2 450	3 160
Standard deviation	2 552	3 591
Coefficient of variation	1.04	1.14

Source: Branko Milanovic, "True World Income Distribution, 1988 and 1993", Policy Research Working Paper, No. 2244, Washington, D.C., World Bank, 1999.

[a] Calculated on a purchasing power parity basis.
[b] Index values were multiplied by 100.
[c] The figures in brackets represent the contribution to total inequality.
[d] The residual component is the share of inequality that is due to the mix of persons from higher and lower per capita income countries, as certain individuals from lower per capita income countries have higher incomes than certain individuals from higher per capita income countries.

This increase in polarization among regions was accompanied by rising inequality within countries (Cornia, 1999), as shown in table I.3.

[4] These figures are based on studies in which incomes are calculated on a purchasing power parity basis, inequalities are heightened considerably when current money values are used.

This confirms the persistence of a trend that has been evident in a wide range of countries over the last quarter of a century.

Table I.3
TRENDS IN WORLD INCOME INEQUALITY, 1975-1995
(Percentages of countries in terms of population)

Groups of countries	Increasing inequality	Stable inequality	Declining inequality	Unidentifiable trend
Industrialized countries	71.8	1.2	27.0	0.0
Eastern Europe	98.1	0.0	0.0	1.9
Former Soviet Union	100.0	0.0	0.0	0.0
Latin America	83.8	0.0	11.4	14.0
Southern Asia and Middle East	1.4	70.2	14.4	14.8
East Asia	79.4	4.4	16.1	0.1
Africa	31.6	11.9	7.7	48.8
World[a]	56.6	22.1	15.6	5.7

Source: Giovanni Andrea Cornia, "Liberalization, Globalization and Income Distribution", Working Papers, No. 157, Helsinki, United Nations University (UNU)/ World Institute for Development Economics Research (WIDER), March 1999.

[a] Sample of 77 countries accounting for 81.7% of world population and 95.0% of world GDP, incomes calculated on a purchasing power parity basis.

Thus, countries in which income distribution became more unequal in the period 1975-1995 accounted for 56.6% of the combined population of the 77 included in the survey. Only 15.6% lived in countries that showed declining levels of inequality, most of which were in Asia. The rest, 27.8%, were the inhabitants of countries where inequality levels remained stable or showed no discernible pattern over the period.

In the case of the industrialized countries, this trend in income distribution was more marked, with 71.8% of the population living in countries where inequality was growing and 27.0% in countries where it was diminishing. According to various studies (Atkinson, 1996 and 1999 and Cornia, 1999), worsening inequality was due to an increase in wage differentials, attributable mainly to the diminishing power of workers' organizations, to the impact of trade liberalization and to technical progress, which raises the skill levels required of the workforce. Those countries where wages continued to be set centrally (Germany and Italy) and where a more significant role for workers' organizations was combined with protection for minimum wages (France) managed to cushion the impact of these factors. By contrast, Australia, New Zealand, the United Kingdom and the United States, where wage negotiations are decentralized and labour markets are more flexible, recorded the sharpest increases in income inequality.

The transition economies of the former Soviet Union and Eastern Europe suffered the most severe deterioration in income distribution, with inequality rising in practically all the countries in these two groups.

Between 1987-1988 and 1993-1995, the Gini coefficient rose from 0.23 to 0.47 for Ukraine, from 0.24 to 0.48 for Russia, from 0.23 to 0.37 for Lithuania, from 0.21 to 0.23 for Hungary and from 0.26 to 0.28 for Poland (Milanovic, 1998). In these cases, too, greater wage dispersion became the norm as certain professions began to command scarcity incomes and minimum wages fell.

The developing regions show wider variations. Thus, in East Asia, inequality worsened overall, rising in countries that accounted for 79.4% of the region's population; this trend largely reflects the growing differentiation between urban and coastal zones of China and the country's rural areas. At the same time, however, East Asia had a higher percentage of people residing in countries in which inequiality is declining (16.1%) than any other developing region. Conversely, in Southern Asia and the Middle East, the majority of the population (70.2%) lived in countries where inequality rates remained stable or declined (14.4% of the population). In both cases, the disparities were due to differences between rural and urban locations or between coastal and inland regions and, increasingly, to wage differentials. The distinctive feature of Africa was the large number of countries —accounting for 48.4% of the region's population— in which no distribution trend could be identified. There again, growing income inequality (found in countries accounting for 31.6% of the region's population) was largely the result of deepening divisions between rural and urban areas.

The vast majority of Latin America's population (83.8%) lives in countries where the inequality of income distribution increased in 1975-1995, from levels that were already the world's worst. Thus, the sharp deterioration which was a specific feature of Latin America during the 1980s was not halted in the 1990s. Worsening distribution was associated with structural changes that led to asymmetry between the expansionary and contractionary phases of the economic cycle, which were not only pronounced in the last quarter of the twentieth century, but followed one another in quick succession. The income shares of lower-income sectors fell disproportionately during the recessionary phases, while the weighting of higher-income sectors increased by more than the average during upturns. The same holds true for the poor population; it has been estimated (Cornia, 1994) that poverty increased by 1.8% for each percentage point fall in output in the recessionary phases, while it diminished by only 0.6% for each percentage point of growth in the upturns.

This overall situation suggests that new factors strongly conducive to greater income inequality were at work, compounding traditional ones such as asset distribution and access to education. These new factors, whose origins can be traced to globalization and certain national policy positions, were the decline in the share of total income accounted for by wage earnings and the concomitant rise of financial income and corporate profits, growing polarization of pay by skill levels, and the erosion of the State's ability to redistribute income through taxes and transfers. However, the relative impact of one or other of these groups of factors, or of their individual components, varied from one region to another and even among countries within each region.

2. Trends towards greater internationalization in the new world context

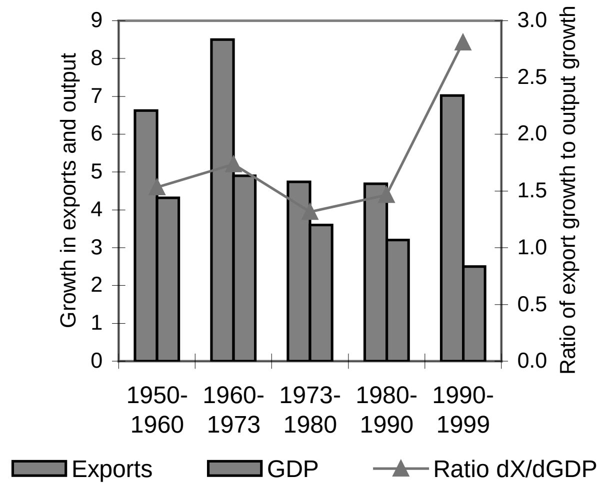
(a) Quantitative aspects of globalization

Policies promoting the internationalization of societies and, in particular, of economies, triumphed in the 1990s. International trade grew by close to 7% per year, foreign direct investment (FDI) increased almost twenty-fold compared with the 1970s to top US$ 640 billion in 1999, and daily transactions on foreign-exchange markets, most of them purely financial in nature, had reached US$ 1.4 trillion by the end of the decade.

One of the main manifestations of this trend was an increase in the ratio of international trade growth to output growth. Figure I.3 shows that, after slowing between 1973 and 1990, world trade, in constant values, returned to annual growth rates similar to those recorded in the first decades following the Second World War. This expansion coincided with a slowdown in world output growth, with the result that the ratio between the two variables in the 1990s, at almost 3:1, was the highest since the war.

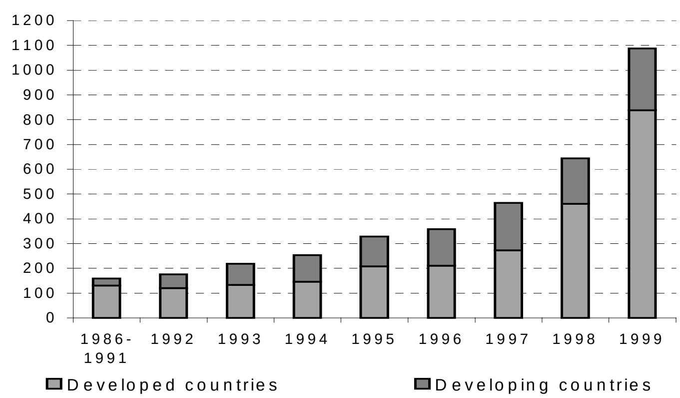
Figure I.4 shows the renewed strength of FDI. Reciprocal flows between industrialized countries continued to be the most substantial, and investment of this type was particularly strong within Western Europe. Nevertheless, the share of other regions, including Latin America, East and South-East Asia and, above all, China, also increased. Between 1992 and 1999, China accounted for close to one third of all FDI flows to developing countries. The surprising upsurge in cross-border mergers and acquisitions led to these accounting for a very substantial proportion of FDI, up from 44% of the total in the period 1990-1992 to as much as 70% in 1999 (UNCTAD, 1995, 1997, 1999 and 2001).

Figure I.3
WORLD EXPORT AND OUTPUT GROWTH, 1950-1999
(Percentages and quotients)



Source: Table I.1 and estimates based on IMF figures.

Figure I.4
FOREIGN DIRECT INVESTMENT, BY DESTINATION, 1986-1999
(Billions of dollars)

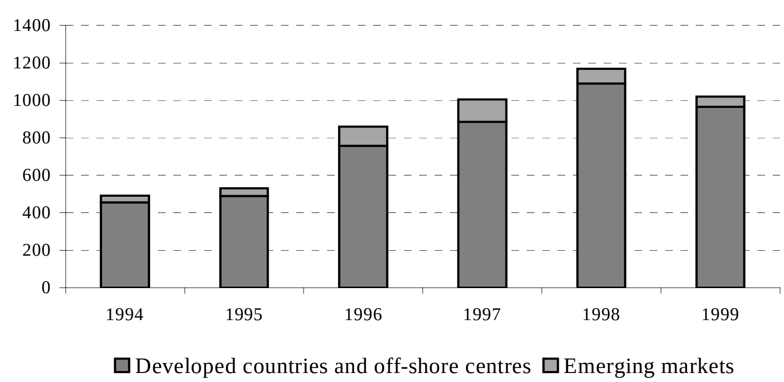


Source: United Nations Conference on Trade and Development (UNCTAD), *World Investment Report, 1998: Transnational Corporations, Market Structure and Competition Policy* (UNCTAD/WIR/1998), New York, 1998. United Nations publication, Sales No. E.98.II.D.5, *World Investment Report, 1999: FDI and the Challenge of Development* (UNCTAD/WIR/1999), New York, 1999. United Nations publication, Sales No. E.99.II.D.3 and *World Investment Report, 2001.*

Growth in international trade and foreign direct investment was matched by a similar expansion in international financial flows, one indicator of which was the growth in assets held by banks from the major industrialized countries in the rest of the world.[5] Between June 1991 and December 1997 (that is, between the virtual end of the debt crisis and the start of the Asian crisis), these balances grew at a rate of 10% per year, from US$ 1.1 billion to US$ 1.9 billion. In 1998, total balances contracted by 7%, owing mainly to the fall experienced by the Asian countries (30%). This downward trend was maintained in 1999, although it was less sharp, with assets contracting by 1.4%.

The sums involved in international bond issues were even larger, with balances climbing from US$ 1.8 trillion at the end of 1991 to US$ 5.1 trillion in December 1999. Annual issues grew significantly in the second half of the decade, with emerging markets accounting for a slightly higher share, especially in 1996 and 1997, as can be seen in figure I.5. This share fell substantially in the last quarter of 1997 and again from mid-1998, to stand at only 3.0% in the second half of 1999.

Figure I.5
INTERNATIONAL BOND ISSUES, BY NATIONALITY OF DEBTOR
(Billions of dollars)

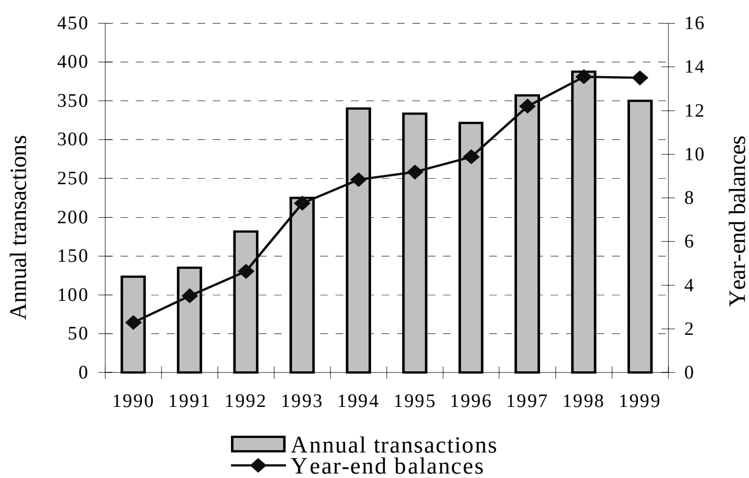


Source: Bank for International Settlements (BIS), *International Banking and Financial Market Development*, Basle, various issues.

5 These are the positions that banks reporting to the Bank for International Settlements (BIS) have in countries outside the BIS zone (these are mainly developing countries and offshore financial centres). The figures are taken from BIS, *The maturity and sectoral distribution of international bank lending*, Basle, various issues.

Lastly, the value of outstanding derivatives (futures and options) grew by an average annual rate of 25% in the 1990s, topping US$ 13 trillion in late 1999. Transactions in these instruments on organized markets recognized by the Bank for International Settlements (BIS) swelled to almost US$ 400 trillion per year, as shown in figure 1.6. The collapse of major intermediaries resulting from the successive crises of 1997 and 1998 severely affected this market, reducing net balances by US$ 2.7 trillion (or 17%) in the last quarter of 1998. This prompted doubts about the operations of certain financial agents who managed, with little capital, to acquire huge liabilities. These concerns led to a series of initiatives aimed at increasing regulation and supervision of such agents.[6]

Figure I.6
FINANCIAL DERIVATIVES: ANNUAL TRANSACTIONS AND YEAR-END BALANCES
(Billions of dollars)



Source: Bank for International Settlements (BIS), *International Banking and Financial Market Development*, Basle, various issues.

6 The Basle Committee on Banking Supervision and, more recently, the Financial Stability Forum have analysed the risks that the activities of highly leveraged financial institutions represent for banks. The Committee has noted that banks did not have effective policies for administering their exposure towards such clients. In particular, assessments of the creditworthiness of such institutions were hampered by the limited availability of financial information; lending decisions were to some extent based on unsystematic estimates of risk and on the reputation and perceived risk management capabilities of the institutions in question. In the report, it was also pointed out that banks had no set of established criteria for making proper assessments of their exposure towards secondary markets (BIS, 1999).

Globalized financial capital seems to be increasingly disengaged from the real economy, despite the fact that its theoretical function is to finance it. Even on the most generous estimates, barely 8% of the US$ 1.3 trillion to US$ 1.5 trillion that changes hands each day on the foreign-exchange markets relates to commercial payments between countries or direct investments abroad (Chesnais, 1997). Financing provided to non-financial agents creates the basis for an inverted pyramid of derivatives which inflate the assets and liabilities of intermediaries and give financial investors a whole range of options for employing their capital that bear no direct relationship to any real investment or commercial transaction.

The speed with which international economic transactions expanded in the 1990s was in inverse proportion to the strength of their relationship with national output growth in the countries concerned. Thus, trade grew more rapidly than output, but more slowly than bank credits and much more slowly than international bond issues. The increase in outstanding derivative balances was much greater still, although it should be recalled that these do not relate only to international transactions.

What all this makes clear is that the spread of globalization did not lead to greater economic growth in the 1990s. The impact of trade on growth weakened, and only when FDI was used for new investment did it have a positive and direct influence on the rate of expansion. Furthermore, this remarkable financial boom generated crisis situations without stimulating the economy to the extent expected.

(b) Technological innovations, deregulation and concentration of economic power

Globalization is a phenomenon that far transcends trade, FDI and financial flows. Indeed, its reach is spreading, something that was particularly noticeable in the 1990s. The increasing rapidity with which technological innovations are being generated and diffused is giving rise to profound changes in lifestyles, social organization and production activities. It is still too soon to evaluate the true scale of the effects on the economy, but there is no doubt that production functions and potential and the quantity and quality of goods and services have already changed significantly. Administrative innovations, introduced in conjunction with new machinery and equipment in markets of different sizes, have given rise to very different combinations of capital and labour. In the financial sector, in particular, the development of communications technologies has made real-time operations that transcend national frontiers a matter of routine.

The position of developing countries in this new international environment is multi-faceted, long determined by their access to new technologies, products and information of many kinds. Reference should be made, in particular, to the relationships between new types of financial linkage and modes of national development. Economic links between private banks and pension and investment funds in developed countries and the private sector in developing countries have, to a large extent, replaced the old government-to-government relationships. Official development assistance has dwindled so much that in recent years it has stood at barely a third of the international goal of 0.7% of GDP set for the industrialized countries. The bulk of lending by multilateral banks, which formerly supported the expansion of physical and productive infrastructure in developing countries, is now channelled towards the social sector, which has become the priority area for public-sector action in the region.

At the same time, the developed countries, the international banking system and multilateral organizations have been advocating the establishment of new macroeconomic and institutional mechanisms to carry forward the liberalization of domestic markets and international economic relations. These deregulation measures have been adopted by a growing number of countries, especially since the early 1980s. The removal of barriers to movements of goods and capital, the increased business opportunities available to large corporate groups (for example, through privatizations and the elimination of restrictions on foreign investment) and the liberalization of national financial systems have made it possible for major economic agents to adopt global investment strategies.

In this way, the organization of markets has been moving further and further away from the theoretical conditions of perfect competition which the positions taken in support of the new development style still implicitly uphold. In practice, there has been a striking tendency towards concentration in the corporate world, with countless cross-border mergers and acquisitions, alliances between transnational corporations and locally owned firms and the formation of multisectoral conglomerates.

Globalization is therefore by no means synonymous with greater homogeneity at the international level or within countries, although there is evidence that similar economic policy norms and technological standards are spreading and that similar consumption patterns are taking hold among affluent elements in each country. The possible implications of such changes for the concentration of economic power, and the likelihood that access to new goods and services will vary greatly across countries and strata of the population, are now a cause of considerable concern.

3. Policies and agents of internationalization

An important aspect of globalization has been the increasing homogeneity of national policies. Domestic policies in every country are being determined to an ever greater extent by international standards designed to iron out differences in rules between national markets (Marinho, 1997 and Tussie, 1994). The World Trade Organization (WTO) standards, the proposals of the industrialized countries for a multilateral investment treaty and the International Monetary Fund (IMF) initiatives relating to capital account convertibility are all part of this tendency. One increasingly important point is that while the spread of globalization is being encouraged at the economic and financial levels, no international political institutions capable of regulating the system in any way have yet been created.[7]

(a) Monetary policies, interest rates and the preponderance of financial capital

The leading role assigned to monetary policy at the macroeconomic level and the growing pressure for far-reaching financial liberalization in all countries are central features of the current globalization process. Changes in interest rate trends have played a key role in redistributing economic power, in strengthening certain agents and in altering the economic behaviour of most actors.

The extreme mobility of financial capital and the monetary policies adopted in the early 1980s shifted bargaining power from borrowers to lenders and pushed up real long-term interest rates significantly over the decade, as table I.4 shows for the case of the developed countries. In the 1990s, these rates did drop back to below their 1980s lends in the United States and Japan, but they are still far higher than they were before the 1970s.

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[7] According to the former Brazilian President, F.H. Cardoso, this is a problem that governments must work together to address, primarily by establishing an international order based on rules acceptable to all and underpinned by institutions capable of ensuring that these rules are enforced (Cardoso, 1995). On the relevant financial aspects, see Ocampo (1999).

Table I.4
REAL LONG-TERM INTEREST RATES IN SELECTED OECD COUNTRIES
(Percentages)

	1961-1969	1970-1979	1980-1989	1990-1999
United States	-0.81	-0.33	8.18	5.88
Japan	...	1.95	3.62	1.49
United Kingdom	2.37	2.17	4.58	5.12
European Community of 11[a]	...	0.22	4.31	4.95

Source: Estimates based on OECD figures.

[a] Countries of the European Union, excluding the United Kingdom, Denmark, Greece and Sweden.

Another factor that contributed enormously to this tendency was increased financial deregulation, which included decontrol of the interest rates paid to savers and new opportunities to invest outside of the banking system. As a result, banks lost their privileged position as savings deposit-takers and were forced to raise their interest rates to curb the movement towards disintermediation.[8] Such trends, combined with the elimination of some of the old demarcation lines in the financial system, tended to favour direct financing (through placements of stocks and bonds, which in turn provide the basis for numerous financial derivatives) at the expense of bank loans. Banks' profit margins came under pressure as the cost of their funding increased and clients turned away from them to seek direct financing in the market, leading some of them to become involved in higher-yield, higher-risk operations.

While commercial banks saw their influence diminish, that of pension funds, insurance companies and investment funds increased. In 1990, institutional investors from 21 countries of the Organisation for Economic Co-operation and Development (OECD) managed financial assets of US$ 13.4 trillion, the equivalent of 83% of these countries' total GDP. By the middle of the decade, these assets had climbed to US$ 23.1 trillion, which was more than the consolidated output of this group of countries.[9]

8 "Disintermediation" refers to the process whereby, as a result of competition from other investment options, a particular financial institution sees resources it used to attract diverted to other intermediaries that are able to offer higher yields, or directly to the final borrower. In the early 1980s, for example, this trend had repercussions on United States savings and loan associations whose interest rates were regulated and whose deposits declined when the market interest rate increased.

9 Estimates based on figures from OECD, *Institutional investors – Statistical Yearbook, 1997*. The main types of investors vary from one country to another, as do their preferred investments. In countries with funded pension systems, such as the United Kingdom

Volatility and contagion —which characteristically arise when the expectations of market agents are either euphoric or depressed— were features of this rapid process of financial development. These features, together with the failure of regulatory and prudential supervisory systems to keep pace with changes in the financial markets (particularly during periods of rapid liberalization), were responsible for the rapidity with which national banking crises succeeded one another (IMF, 1998), often in conjunction with foreign-exchange crises (in both developed and developing countries, but particularly the latter) and volatility in the exchange rates of the major currencies. These increasing difficulties in international finance gave rise to a number of initiatives for reforming the international financial system (Ocampo, 1999).

Even as it globalized, the financial market remained highly segmented in a number of respects. It provided access to credit at relatively low rates to specific borrowers, basically the governments of industrialized countries and transnational corporations, set higher rates for large public or private emerging-market borrowers and denied credit to whole segments of developing countries and to small and medium-sized enterprises. This differential treatment tended to intensify in periods of crisis, when investors' "flight to safety" was reflected in disproportionately large rises in the interest rates charged to developing countries and to smaller firms in developed countries. As regards the customers for credit, households continued to be major borrowers during the period, generally at very high interest rates.

In several developing countries, the shift in relative prices in favour of investment income restricted capital investment and growth in output. Faced with crisis situations, governments were forced to intervene, thereby incurring high fiscal and quasi-fiscal costs, and to apply for IMF assistance (see chapter 3).

In short, the 1990s were witness to a higher concentration of economic power in the hands of financial creditors, at the expense of governments themselves.[10] Nevertheless, the recent crises in various emerging countries in East Asia, Russia and Latin America may mark a

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and the United States, pension funds are the largest investors. In others, such as France, Germany and Japan, insurance companies account for the highest percentage, followed by investment funds. Again, in the English-speaking countries, shares generally make up a large proportion of these investors' portfolios, accounting for well over 50% in Australia and the United Kingdom and for a large and growing portion in Canada and the United States; in the latter country they made up 36% of the total in 1995, whole bonds accounted for 40%. Conversely, bonds and loans predominate in continental Europe (France, Germany, Italy, etc.) and in Japan.

[10] The dominance of creditors in financial markets and of employers in the labour market are characteristics of our time. See Fitoussi (1996).

turning point in this predominance of investment income. For the first time, furthermore, the willingness of governments and IMF to spend considerable sums on financial rescue operations is being criticized in international forums and developed countries, and there are persistent calls for creditors to play a more active role in solving crises.

(b) The dominant role played by transnational corporations

The influence of transnational corporations also increased in the 1990s. Transcending national boundaries, with the ability to accumulate and deploy capital on a global scale, transnationals are the main architects and beneficiaries of globalization. In fact, it is estimated that internal transfers among the parent subsidiary and associated companies of transnational conglomerates account for one third of all trade in non-factor goods and services. Clearly, these transactions and the prices at which they take place do not always reflect market forces, but are valued at transfer prices. Since exports by subsidiaries of transnationals to non-affiliated firms account for another third, it may be concluded that two thirds of world trade in non-factor goods and services falls, in one way or another, within the scope of the international production systems of transnational corporations (UNCTAD, 1995).

Traditionally, transnational corporations tended to form networks between the parent company, subsidiaries and associates. In the 1980s, this was supplemented by a series of linkages based on financial movements of intangibles (patents, royalties, technical assistance, models, licences and franchises) which expanded the presence of transnational capital in the different regions of the world, while reducing direct investment risk. In recent years, transnational operations in the production sphere have begun to follow a new pattern. In some cases, parent companies have bought out their local partners, gaining direct control of the companies concerned. Many large firms have formed strategic alliances among themselves or carried out merger and hostile or friendly acquisition operations involving other companies in their sector. This has given rise to huge oligopolistic conglomerates, with firms and banks from different countries regrouping to compete at the supranational level. This is one of the reasons why some of the leading companies in the developing countries are now operating with greater administrative and productive efficiency and with higher rates of return than formerly, while forging stronger linkages with the global economy.

(c) Regional integration

At the same time, integration movements progressed in the 1990s, particularly in Asia, Europe and the Americas. These processes have a similar tendency to other aspects of globalization, being geared towards the removal of barriers to trade between given countries. Nevertheless, their logic and basic thrust are different, insofar as integration reflects the political will of countries to create a common framework whose scope goes beyond just trade, or even economic matters. Within this framework, guidelines or limits can be set for economic agents, and there is the potential for the bargaining power of member countries to be combined to produce a greater effect on the world stage.

The ASEAN, Free-Trade Area, an integration agreement forming an integral part of the Association of South-East Asian Nations (ASEAN), has been in operation since 1992 and seeks to achieve completely free trade among its members by 2003 by deepening and expanding mutual tariff preferences. Equally important has been the expansion of Asia-Pacific Economic Cooperation (APEC), an organization that encompasses both industrialized and developing countries. In the case of Europe, integration has expanded to more countries and has deepened since the adoption of the euro in 1999.[11]

In the 1990s, Mexico joined the North American Free Trade Agreement (NAFTA), which also includes Canada and the United States. Of similar importance were initiatives to strengthen the region's trade and investment links with other integration areas and countries in the world. The European Union has been the preferred choice of Latin American governments for the establishment of free trade agreements. Mexico recently entered into an agreement of this kind, and both MERCOSUR and Chile have made progress in the same direction. Asia is another area of growing interest to Latin American governments, the preferred approach being for Latin American countries to join APEC. Mexico was admitted in 1993, while Chile and Peru have participated as full members since 1997 and 1998, respectively. Reference should also be made to the interest expressed recently by some Asian countries in strengthening bilateral ties with Latin American ones, as demonstrated by the opening of negotiations for the establishment of a free trade agreement between the Republic of Korea and Chile.

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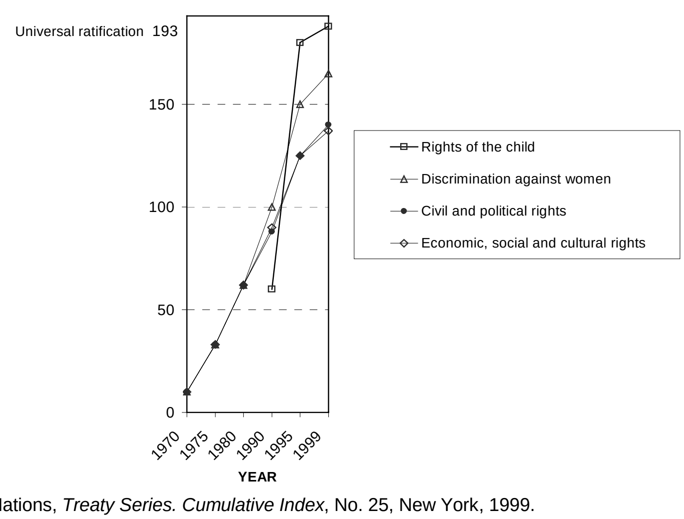
[11] Among other consequences, the adoption of a single currency will put an end to the financial speculation which, by repeatedly targeting one currency or another in the European Monetary System, has influenced monetary policy in the member States and jeopardized their reserves.

Also worthy of note is the progress towards subregional integration in Latin America and the Caribbean. The consolidation of MERCOSUR has enhanced trade within the bloc and offers both local and foreign investors a wider market. The late 1980s saw the revival of the Andean Group (later superseded by the Andean Community), the Central American Common Market (CACM) and the Caribbean Community (CARICOM). MERCOSUR also signed trade agreements with Chile and Bolivia and is negotiating similar pacts with the Andean Community. Reacting to these dynamic subregional integration processes, the United States put forward its proposal for a Free Trade Area of the Americas (FTAA) for the year 2005, which is being debated throughout the continent (see chapter 2).

4. Globalization of values

While the interest of the international community was engaged primarily by economic matters (in particular trade and finance) in the 1990s, other issues that found their way on to the multilateral agenda revealed a trend towards globalization of certain basic values. This was attested to by the increasing number of governments signing up to human rights conventions during the decade, as shown in figure I.7. Further evidence of this trend is the growing importance being attached to United Nations world summits.

Figure I.7
RATIFICATION OF HUMAN RIGHTS CONVENTIONS
(Total countries)



Source: United Nations, *Treaty Series. Cumulative Index*, No. 25, New York, 1999.

With respect to the environment, the concept of sustainable development was elaborated and then gradually tied in with a number of other economic and social issues. The United Nations Conference on Environment and Development (dubbed the Earth Summit), held in 1992 in Rio de Janeiro, Brazil, established the framework for a new international environmental order. That meeting culminated in the adoption of two legally binding treaties: the United Nations Framework Convention on Climate Change and the Convention on Biological Diversity. The Non-legally Binding Authoritative Statement of Principles for a Global Consensus on Management, Conservation and Sustainable Development of All Types of Forests was also approved on that occasion. Agreement was likewise reached on a programme of action (Agenda 21) to guide the transition towards a sustainable form of development, with guidelines for the economic and social spheres. This programme included the notion of common but differentiated responsibilities, the "polluter pays" concept and the precautionary principle, according to which lack of absolute scientific certainty must not be used as grounds for deferring the adoption of corrective measures when there is a danger of grave or irreversible damage to the environment. Another key element is that environmental demands are generally linked to economic considerations and interests. Although there are currently enormous obstacles to the inclusion of environmental issues in trade negotiations, there can be no doubt that a negotiated convergence of national environmental policies will be crucial to the future of international trade (see chapter 7).

The International Conference on Population and Development was held in Cairo, Egypt, in 1994 to provide the ground rules for long-term national and international population and development policies. The Programme of Action set out a new strategy which stressed the importance of meeting the individual needs of men and women rather than attempting to achieve demographic goals. At the heart of the Programme was the recognition that steps to check population growth, eliminate gender inequalities, reduce poverty, achieve economic progress and protect the environment are mutually reinforcing. Goals were identified in three related spheres: firstly, to provide universal family-planning services as part of a broader approach to reproductive health and procreation rights, while at the same time reducing infant, child and maternal mortality rates; secondly, to mainstream population issues in all policies and programmes for achieving sustainable development; and, lastly, to empower women and girl children and increase the options available to them by providing broader access to education, health services and employment opportunities.

The World Summit for Social Development, held in 1995 in Copenhagen, Denmark, marked a milestone, with governments throwing their support behind policies to promote a framework for social development and justice. In particular, they strongly committed themselves to the goals of eradicating poverty, boosting productive employment and reducing unemployment, while striving to ensure that national policies and public budgets were directed towards meeting the basic needs of all and promoting social integration by fostering stable, secure and just societies. The Commission for Social Development, which comes under the Economic and Social Council of the United Nations, has primary responsibility for following up and scrutinizing implementation of the agreements reached at the World Summit. It has adapted its mandate and agenda with a view to achieving an integrated approach to social development, on the basis of a multi-year programme running up to the year 2000.

The Fourth World Conference on Women, held in Beijing, China, in 1995, approved a Declaration enshrining the international community's commitment to the advancement of women and to the mainstreaming of gender considerations in all policies and programmes at the national, regional and international levels. The Platform for Action established goals and set deadlines for concrete measures in areas such as health, education, decision-making and legal reform, with the ultimate aim of eliminating all forms of discrimination against women in public and private life. Many governments are now formulating plans for the implementation of the Platform for Action; national planning is expected to be broad-based, participatory and comprehensive and to include proposals for allocating or reallocating resources so that implementation can take place.

The United Nations Conference on Human Settlements (Habitat II), held in Istanbul, Turkey, was the last in a series of global meetings which have shaped the world development programme for the coming years. Held in 1996, the Conference adopted a plan of action, the Habitat Agenda, that provides an effective instrument for the creation —in the specific context of urban planning— of human settlements that are sustainable in terms of the environment, human rights, social development, women and population. The Conference discussed ways in which local authorities, non-governmental organizations and other social groups could assist in achieving these aims, emphasizing the sharing of information and best practice as a way of finding solutions to human settlement problems based on initiatives and innovative modes of thinking originating from local governments and community-based organizations.

In the 1990s, other important issues were the subject of intergovernmental discussions resulting in plans of action. The World

Summit for Children was held in 1990 at United Nations Headquarters in New York, the highlight of this event being the joint signing of the World Declaration on the Survival, Protection and Development of Children and a plan of action establishing a detailed set of human development goals for children for the year 2000. These goals included cutting infant and maternal mortality rates, reducing child malnutrition and illiteracy and achieving clearly-defined increases in levels of access to basic health and family planning services, education, drinking water and sanitation.

At the World Conference on Human Rights, held in Vienna, Austria, in 1993, representatives from 171 countries unanimously adopted the Vienna Declaration and Programme of Action, which outlines a common plan for strengthening respect for human rights and stresses the vitally important links between development, democracy and the promotion of human rights. Although a number of delegations were sensitive to the issue of national sovereignty, it was agreed that, in view of the intentions and principles of the United Nations Charter, the promotion and protection of all human rights was a legitimate concern of the international community.

The Global Conference on the Sustainable Development of Small Island Developing States, held in Bridgetown, Barbados, in 1994, adopted the Barbados Declaration and Programme of Action, which set forth development principles and strategies for such States. The main proposals were for the creation of national and regional funds to finance emergency aid and insurance against natural disasters, the establishment of regional research and training centres specializing in environmentally sound technologies, the organization of a technical assistance programme and the construction of an information network covering various aspects of sustainable development in small island States. Other meaningful initiatives include the World Conference on Natural Disaster Reduction, held in Yokohama, Japan, in 1994, the United Nations Congress on the Prevention of Crime and the Treatment of Offenders, held in Cairo, Egypt, in 1995, and the World Food Summit, held in Rome, Italy, in 1996 (United Nations, 1997).

Taken as a whole, the outcomes of these conferences provide a sound conceptual framework for moving towards globalization of values on the basis of a sustainable, humanized approach that respects human rights, gender and ethnic and cultural diversity and addresses the most pressing social issues.

5. Democracy in Latin America and the Caribbean

The far-reaching political changes that occurred in the world in the late 1980s led to almost universal recognition for the claims of democracy as a political system. Acceptance of pluralism and the alternation of power, the separation of powers within the State, full respect for human rights, the election of authorities as the basis for legitimacy and the principle of majority rule, subject to respect for the rights of the minority, came to be the norm in political discourse and began to be applied on a fairly general basis.

In Latin America and the Caribbean, this acceptance coincided with a democratization process that began in the 1980s and was consolidated in the 1990s. The number of democratic Governments that emerged as a result was unprecedented in the region's history; it is enough to recall that there were just five democratic Governments in the region in 1930, seven in 1948, and a mere three in 1976 (UNDP, 1994).

Although this process was stimulated and reinforced by changes occurring globally, it was essentially the product of the region's own development. At its core were the lessons drawn by the societies of the region about the grave consequences that ensued when they were left without mechanisms capable of solving social and political conflicts in an orderly way. In several cases, these conflicts built up to a point where they degenerated into confrontations that shattered the political system and led, in some instances, to the entrenchment of military dictatorships and, in others, to civil war and systematic violence.

Partly as a result of these painful experiences, the thinking of political, social and economic actors matured profoundly, and the resultant shift in the political and cultural climate made it possible to reach a basic consensus about the need to regulate conflicts through negotiation and compromise and to forestall conflicts and the logic of war. All of this resulted in a reassessment of democratic rules, institutions and procedures.

While democratic consolidation was not without its vicissitudes, the region also demonstrated its capacity to recover from profound institutional crises, such as those that occurred in Brazil in 1992, Guatemala in 1993, Ecuador in 1998, Paraguay in 1999 and Ecuador again in 2000. Ultimately, these conflicts were all settled peacefully through the application of institutional mechanisms and with broad support from civil society.

Significant progress was also made towards ending civil wars in the region. The 1989 peace agreements in Nicaragua were succeeded by those in El Salvador and Guatemala in the 1990s, each of them being followed by democratic reconstruction efforts supported by the international community. In Colombia, where the violence had been dragging on for many years, a complex peace negotiation process was set in train, although these efforts continue to be plagued by major setbacks and difficulties.

Several long-standing border conflicts, including those between Argentina and Chile and between Chile and Peru, were resolved during this period, while others, which had actually led to armed confrontations in the past, as in the case of Ecuador and Peru in 1997, ended with the signing of agreements.

More generally, a series of major reforms were undertaken in the 1990s to strengthen democratic institutions. These included constitutional reforms, changes in the administration of justice and modernization of the public sector aimed at improving the transparency of governance and public service. Efforts have also been made to improve electoral systems, modernize parliaments and generate local autonomy.

Nevertheless, efforts to build democracy in the region still come up against serious weaknesses that reflect both problems common to democratic systems worldwide and the historical limits of the region's own development and its heavy legacy of institutional discontinuity. Indeed, the political systems of a number of the region's countries have deteriorated significantly in recent times, exacerbating the above-mentioned democratic weaknesses.

The changes under way face all democratic institutions everywhere with a number of issues concerning the way they function in societies where information and image play a fundamental role. These issues affect political parties, parliaments, the relationship between electors and representatives and the very meaning of politics. Voting seems to be on the decline in modern democracies and elections seem to be becoming less important in determining the policies that will be followed by the authorities elected.

The above-mentioned tendencies have serious implications for the way representative democracy operates, since governments' actions are increasingly influenced by opinion polls. These legitimize, influence and change the way the governing body operates, relegating the traditional institutions of representative democracy, such as voting the parliamentary system and political parties to a position of secondary importance.

In Latin America and the Caribbean, these problems have been exacerbated by inequality and social exclusion. Despite the efforts made in the 1990s to reduce poverty and indigence levels in the region, and the qualified progress achieved in this respect, unacceptable levels of exclusion persist, as do highly uneven patterns of household income distribution (ECLAC, 2000a). These failings call into question the sustainability of the development process and are detrimental to the thorough exercise of democracy and citizenship in the region. Moreover, phenomena such as pervasive corruption and the criminal economy generated by drug trafficking are becoming increasingly widespread and are having very harmful effects on the way the political system operates.

These factors help to explain the results of surveys used to assess people's perceptions of democracy in the region. While the majority express support for this system, opinions about the way it operates and the extent to which it has been effective in responding to the demands of the population are predominantly negative (*Latino Barómetro*, 2000) (see table I.5). This dissatisfaction may be questionable, but it has a basis in the mismatch, as people perceive it, between the costs and benefits of the development process: the costs are undeniable and can be measured, while the probable benefits (and they cannot be guaranteed) are widely diffused.

Table I.5
LATIN AMERICA: OPINION POLLS
(Percentages of affirmative responses)

	I prefer democracy to any other form of government		I am quite satisfied or very satisfied with the way democracy works		I believe that the economic situation in my country will be better in twelve months' time		I believe that my economic position and that of my family will be better in twelve months' time	
	1996	1999	1996	1999	1996	1999	1996	1999
Argentina	71	71	34	46	18	39	20	40
Bolivia	64	62	25	22	18	14	30	29
Brazil	50	39	20	18	36	34	50	53
Chile	54	57	27	35	26	45	34	46
Colombia	60	50	16	27	20	20	45	39
Costa Rica	80	83	51	61	10	18	12	31
Ecuador	52	54	34	23	27	17	27	24
El Salvador	56	63	26	27	10	13	15	19
Guatemala	51	45	16	35	5	29	18	38
Honduras	42	64	20	44	3	28	7	43
Mexico	53	45	11	37	14	26	20	37
Nicaragua	59	64	23	16	29	20	32	29
Panama	75	62	28	47	15	35	24	43
Paraguay	59	48	22	12	21	25	34	34
Peru	63	64	28	24	30	29	34	36
Uruguay	80	84	52	69	15	25	19	28
Venezuela	62	61	30	55	12	57	24	62

Source: *Latino Barómetro*, "Informes de prensa de las encuestas realizadas en 1999 y 2000", Santiago, Chile, 2000.

The characteristics of the 1980s crisis, the profound instability that it generated, the realization that hyperinflation was highly regressive in its effects and the harsh experience of dictatorial government all meant that people in the region were willing to give their new governments a long "honeymoon" period in which to make changes in development models and rebuild democratic life. However, this honeymoon period seems to be coming to an end. Indeed, there are increasingly widespread demands for initiatives, but these encounter a weakened public authority that is apparently incapable of protecting citizens and coming to the assistance of those in need. Certainly, the strength of these tendencies and the way in which they manifest themselves vary with the particular situation in each country, but certain features are common to them all.

6. Latin America and the Caribbean in a global context

In the 1990s, the region underwent far-reaching economic and social changes determined by shifts in the external context. Economic reforms were initiated in the 1970s in the Southern Cone of Latin America (Argentina, Chile and Uruguay) and, to a lesser extent, in other countries as well. In the first few years after the debt crisis, between 1982 and 1985, many reforms were suspended and, in some cases, reversed by temporary restrictions on capital account liberalization, tariff increases and the use of para-tariff instruments, and government intervention in or nationalization of insolvent private-sector banks. From 1985 onwards, economic reforms spread practically throughout the region. Measures to liberalize trade and domestic financial markets were the first to be applied widely. While from 1990 onwards there was also increasing liberalization of external capital flows. Consequently, towards the mid-1990s, there was significant convergence among countries in these three areas of reform, which raised the averages for the relevant regional indices.[12] These indices tended to level off in the closing years of the decade in most countries, with no

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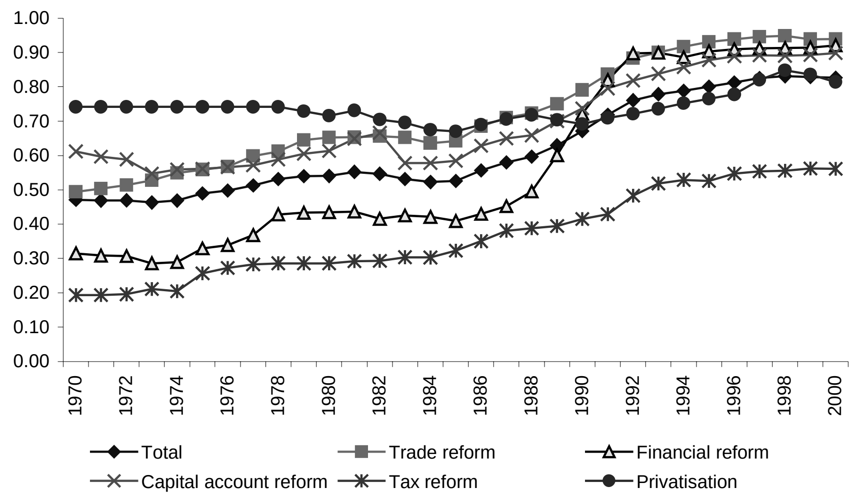
[12] The figure shows the regional averages of the reform indices in five policy areas: trade reform, domestic financial liberalization, capital account liberalization, privatization and the tax system. The indices were standardized (between 0 and 1), with a value close to 1 indicating a high level of reform on the basis of relative values. Some characteristics of the procedure adopted should be highlighted. Firstly, the indices measure the intensity of the reforms undertaken in each country against the standard of the economy where the most thorough-going reforms were made in each policy area. As a result, if no country introduced significant reforms in a given area, a high index value may give a false impression of the absolute level of reform. Secondly, the indices measure the degree of liberalization in each policy area. Nevertheless, a high index value does not necessarily indicate a better policy regime, since the optimum value of the index is not known. Despite these shortcomings, the indices do provide an overview of which areas have been reformed most, and when. For definitions of the reform indices and details of the standardization procedures followed, see Morley, Machado and Pettinato, 1999.

major reversal during the turbulent macroeconomic events that started in 1998 (see figure I.8).

Figure I.8
REFORM INDICES, 1970-2000



Source: ECLAC.

On the other hand, there has been less convergence in two other areas of reform: the tax system and privatization. In the case of the tax system, this may be partly due to the conflict between the objectives of neutrality and equity, but differences between countries in the relative size of the public sector may also be responsible. With respect to privatization, the situation varies between countries; while some have privatized almost all of their State-owned enterprises (Argentina and Peru), in others the State has retained a role in key sectors such as hydrocarbons and mining (Chile, Colombia, Mexico and Venezuela) or public services (Costa Rica and Uruguay). There is also a third group, to which many of the region's countries belong, in which the State has always had a very limited role in business.

Examination of the scope and depth of the reform process in different countries reveals an interesting pattern of convergence among national trends over time. This pattern is illustrated in table I.6, where countries are classified according to their level of reform in 1985 and the rate of change in the index between 1985 and 1995.

Table I.6
LEVELS OF ECONOMIC REFORM AND RATES OF CHANGE

Rate of change, 1985-1995	Level of reforms in 1985		
	Below average	Same	Above average
Below average	Venezuela		Chile Colombia Honduras Mexico Uruguay
Same		Ecuador	
Above average	Bolivia Brazil El Salvador Jamaica Paraguay Peru Dominican Republic		Argentina

Source: Samuel Morley, Roberto Machado and Stefano Pettinato, "Indexes of Structural Reform in Latin America", Reformas económicas series, No. 12 (LC/L.1166), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 1999.

It transpires that the countries whose economic reform indices were low in 1985 were the ones that introduced major changes in the following decade, giving rise to the above-mentioned regional convergence. The exceptions are Argentina, which intensified its reforms even further in the 1990s, and, at the other extreme, Venezuela, which still has the lowest indices in the region.

The reforms helped to correct fiscal disequilibria and to combat inflation, both of which had been endemic problems since the 1970s. In addition, definite progress was made in increasing export growth, attracting FDI flows, strengthening economic integration within the region and concluding trade agreements with other countries and regions of the world (see chapter 2).

Where economic growth, industrial modernization and productivity are concerned, however, progress was frustratingly slow. Although growth rates in the 1990s were above the very low values seen in the 1980s, they were modest compared with those of earlier decades. As well as being inadequate, this recovery in economic growth was unstable because of the styles of macroeconomic management prevailing at a time when international financial markets were highly volatile (see chapter 3).

In the area of production, the predominant effects tended to be the “destructive” ones that affect sectors and firms when they lack the capacity to adjust to a new framework of economic incentives, as opposed to the “creative” effects that arise when change results in improved competitiveness and new forms of participation in the production process. As a result, structural heterogeneity increased and total factor productivity grew at a slower rate than was needed to close the gap with the developed world to any significant degree (see chapter 4).

On the social front, public spending increased to what were actually historically unprecedented levels. The percentage of poor people declined, although not enough to reverse the increase recorded in the previous decade or to attenuate the inequity of income distribution. Major efforts were made to restructure social services and improve the efficiency, transparency and effectiveness of spending, although in many cases not enough weight was given to the principles of universality and solidarity which should govern social policies (see chapter 6).

Given the need to build on what has already been achieved, there is a growing conviction that there can be no universal solutions to these issues. The region’s recent development reveals a diversity of responses. Perhaps the element common to most of them is an idea of the public sphere which transcends the State as such to encompass the full range of activities organized in pursuit of objectives of collective interest, thereby opening up areas for citizen participation, pointing the way towards the solution of a still partially unresolved crisis affecting national states and correcting market, as well as government, failures.

Nevertheless, this revival of public action is coming up against new determinants and challenges. The current international framework, the leading agents, their ways of interacting with one another and the new distribution of economic power have had a significant impact on Latin America and the Caribbean. There were definite changes in the roles and relative weight of the different agents in the late 1990s, as compared with the 1980s. The countries of the region started to position themselves to meet this challenge towards the end of the decade. They have responded nationally (through regulations and development policies), regionally (through integration and harmonization of tax and environmental rules) and internationally (through joint action with other governments and institutions in order to secure greater control of international financial flows) (United Nations, 1999a).

Chapter II

Connections between the internal and external environments

A variety of analysts agree that the far-reaching process of change in technology, institutions and orientation experienced by the international economy over the 1990s, which has come to be known as globalization, is part of a long-term trend towards the gradual formation of global markets. This process is still very far from complete, however, as neither product nor —much less— labour markets can be described as global at this point. Only financial markets would appear to be coming close to meeting this description (IMF, 1997).

Financial globalization is in turn causing instability which affects international trade and national production activities. In fact, financial instability has patently become the most striking and worrisome characteristic of the world economy in recent years. The decline in global economic growth observed in 1998, which had an adverse effect on trade, was the fourth such downturn in the past 25 years (IMF, 1998).

In the area of production, the phenomenon known as the "dismemberment of the value chain" began to manifest itself with greater force in the 1990s. This process consists of the segmentation of the production of any given product into the various stages at which value is added and the distribution of these segments among various countries based on their differing factor endowments. These kinds of production activities, which are coordinated by large transnational corporations or conglomerates, heighten the interdependence of different countries' markets (Krugman, 1995). Hence, a close relationship exists among the "dismemberment" of the value chain, the expansion of the volume of trade and finance that has been occurring in recent years and the greater role being played by transnational corporations. Similarly, some degree of labour mobility among countries, whether permanent or temporary, is beginning to appear.

1. International integration policies

Over the past decades, the countries of Latin America and the Caribbean have been seeking a way to integrate themselves into an international economy that is both globalized and regionalized by introducing economic reforms aimed at greater openness and liberalization. As a result of these changes, the economic growth of the region's countries has come to depend on the degree, depth and quality of their integration into the world economy. Furthermore, the recent international financial crisis and the abrupt drop in commodity prices have served as eloquent testimony of the importance of expanding and diversifying exports in order to pave the way for an export-based development strategy capable of generating sustained growth. The crisis has drawn attention to the external vulnerability of most countries in the region, in both financial and production terms.

In addition to dynamic external demand, in order to expand their exports, the countries of the region need to ensure secure access for their goods and services to the markets of both the industrialized countries and the other developing countries. The strategy of open regionalism adopted by the countries of the region makes it possible for them to combine unilateral liberalization with bilateral, subregional, regional, hemispheric and multilateral negotiations and thus to deal realistically with the difficulties of promoting the liberalization of markets that are important to them.

(a) The liberalization of trading and foreign-exchange systems

Latin American —and to a lesser extent Caribbean— governments drastically altered their trading and foreign-exchange systems, within the framework of the macroeconomic reforms introduced since the 1980s, when they lowered their average tariffs and reduced their dispersion (ECLAC, 1998b and IDB, 1996). The process of eliminating tariff barriers to imports was particularly intense between the late 1980s and early 1990s. The signing and implementation of subregional and bilateral trade liberalization agreements also made it possible for the countries to continue to move the liberalization process forward during the 1990s.

As table II.1 shows, the average tariff level, without taking into account the effect of partial liberalization agreements, was reduced from about 45% in the mid-1980s to about 12% in 1999, with most maximum rates standing at around 30% to 35% and just a few at a higher level. Most of the administrative and non-tariff measures affecting imports were also eliminated, and the use of stepped tariffs was limited, so that more uniform tariff structures could be established. Thus, whereas in 1985 around half of the value of Central America's imports and approximately one third of that of the South American countries were subject to some type of para-tariff restriction, by the end of 1994 the proportion had been reduced to less than 1% in 7 of the 11 LAIA member States, and was in no case higher than 5% (Garay and Estevadeordal, 1995).

Governments' concern with price stabilization programmes and the views of many government teams and international organizations concerning the virtues of rapid liberalization prevented due attention from being given to the problems experienced by domestic production structures in adjusting to the new conditions of competition. As a result, trade liberalization was not carried out as gradually as it should have been, and local companies suddenly found themselves facing competition from foreign products and companies in a context of high interest rates and of modest investment coefficients and economic growth. However, in various countries the effects of liberalization on import growth were only felt after a certain lag owing to the contraction of these economies in the early years of trade liberalization and the delays involved in establishing marketing channels for non-traditional imports.[1]

As a corollary to unilateral liberalization, when the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) —which subsequently became the World Trade Organization (WTO)— was concluded in 1994, the Latin American countries consolidated their entire tariff structure, albeit at levels much higher than those they actually apply. Further, in view of the commitments assumed within that framework, the countries of the region had to make changes in their export promotion systems and in other domestic policies, although some subsidy programmes had already been eliminated or substantially scaled down owing to fiscal restrictions and macroeconomic reforms.

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1 In Mexico, an overvalued rate initially limited the impact of imported goods on domestic production, whereas in Brazil imports began to increase in late 1993, although the trade reforms were implemented between 1988 and 1990.

Table II.1
TARIFF STRUCTURE OF THE COUNTRIES OF THE LATIN AMERICAN INTEGRATION ASSOCIATION (LAIA), 1988, 1996 AND 1999
(Percentages)

Country	Year	Most-favoured-nation (MFN) tariff								
		Number of tariff items		Tariff rate by country					Percentage of tariff items	
		Ad valorem	Specific	Minimum	Maximum	Average	Standard deviation	Modal distribution	Minimum	Maximum
	1988	11 933	385	0.0	83.5	29.9	---	43.5	---	---
Argentina	1996	9 306	0	0.0	33.5	13.9	6.9	5.5	4.7	0.4
	1999	9 350	0	0.0	33.0	13.5	6.6	5.0	1.8	0.4
	1988	4 944	0	0.0	17.0	16.7	---	17.0	---	---
Bolivia	1996	6 621	0	0.0	10.0	9.7	1.3	10.0	0.0	93.4
	1999	6 679	0	0.0	10.0	9.7	1.3	10.0	0.0	93.5
	1988	11 935	0	0.0	85.0	41.4	---	40.0	---	---
Brazil	1996	9 328	0	0.0	52.0	14.6	7.5	5.0	1.6	0.2
	1999	9 331	0	0.0	35.0	14.3	7.0	19.0	1.6	0.4
	1988	2 577	0	0.0	23.0	15.1	---	15.0	---	---
Chile	1996	5 864	0	0.0	11.0	11.0	0.7	11.0	0.4	99.6
	1999	5 917	0	0.0	10.0	9.8	1.2	10.0	1.5	98.4
	1988	5 302	12	5.1	218.0	44.2	---	33.0	---	---
Colombia	1996	6 728	0	0.0	35.0	11.6	6.3	5.0	1.7	0.2
	1999	6 786	0	0.0	35.0	11.6	6.3	5.0	2.2	0.2
	1988	5 171	0	0.0	325.0	39.7	---	10.0	---	---
Ecuador	1996	6 650	0	0.0	35.5	11.8	6.4	5.5	0.0	0.2
	1999	6 705	0	0.0	99.0	11.5	7.8	5.0	2.6	0.3
	1988	11 953	0	0.0	20.0	10.4	---	15.0	---	---

(Continued)

Table II.1 (concluded)

Country	Year	Most-favoured-nation (MFN) tariff								
		Number of tariff items		Tariff rate by country					Percentage of tariff items	
		Ad valorem	Specific	Minimum	Maximum	Average	Standard deviation	Modal distribution	Minimum	Maximum
Mexico	1996	11 335	0	0.0	260.0	13.2	13.2	10.0	15.0	0.0
	1999	11 360	0	0.0	260.0	16.2	13.5	13.0	2.0	0.0
	1988	3 579	0	0.0	70.0	19.3	---	20.0	---	---
Paraguay	1996	9 219	0	0.0	30.0	9.5	6.5	2.0	6.1	0.0
	1999	9 319	0	0.0	30.0	11.4	6.8	5.0	3.3	0.0
	1988	5 389	0	0.0	109.0	69.0	---	109.0	---	---
Peru	1996	6 869	0	12.0	25.0	13.5	3.5	12.0	84.2	4.4
	1999	6 888	0	12.0	68.0	13.7	4.8	12.0	84.0	0.3
	1988	7 691	0	0.0	45.0	27.0	---	45.0	---	---
Uruguay	1996	10 465	0	0.0	24.0	12.2	7.2	5.0	4.4	1.4
	1999	10 492	0	0.0	10.0	4.1	4.1	0.0	41.3	18.3
	1988	6 095	876	0.0	160.0	41.7	---	1.0	---	---
Venezuela	1996	6 641	0	0.0	35.0	12.0	6.1	5.0	0.5	0.2
	1999	6 688	0	0.0	35.0	12.0	6.1	5.0	0.5	0.2

Source: Inter-American Development Bank, LAIA Secretariat.

These trade reforms' hoped-for effects on economic growth did not materialize, however, despite the fact that the liberalization of imports reduced exporters' costs. The region's experience thus suggests that simply opening up an economy is not sufficient in itself to bring about high levels of export and production growth. Other deciding factors are the initial level and sustainability of the real exchange rate, the strength of investment, the availability of infrastructure, access to and diffusion of technology, long-term financing, the training of human resources, external promotion and the track record of exporters.[2] In the 1980s, when the reforms were launched, aggregate demand was very depressed, and this naturally discouraged investment. Later, and particularly in 1991-1994 and 1996-1997, there was a significant recovery in aggregate demand, but, in parallel, exchange rates were rising (see table II.2). As a result, imports grew by more than exports, and external vulnerability thus increased. This overall behaviour pattern, together with the inadequacies of mesoeconomic policies, prevented export growth from becoming a factor for economic growth.

(b) Open regionalism

Throughout the 1990s, the governments of Latin America and the Caribbean combined unilateral liberalization with active participation in multilateral negotiations in the framework of WTO and with bilateral, plurilateral and interregional free trade agreements. Liberalization of trade and of the regulatory framework for investment in their economies made it possible for imports and exports to expand. Thus, for the first time, the regional integration movement began to enjoy full acceptance from business circles in the region. Again, the United States showed support for free-trade agreements in the 1980s, when it began bilateral negotiations first with Israel and Canada and, subsequently, with Canada and Mexico to establish NAFTA. While NAFTA was being ratified by the legislative bodies of the three countries, the Government of the United States began to define its strategy for the rest of Latin America and the Caribbean. Its first step in this direction was the 1990 Enterprise for the Americas Initiative, which eventually led to the current negotiations for the creation of a Free Trade Area of the Americas (FTAA).

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[2] The results tend to be long in coming and to entail high costs during the transition (ECLAC, 1998b).

Table II.2
LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE INDICES FOR IMPORTS, 1991-1999
(Indices: 1995=100)

	1991	1992	1993	1994	1995	1996	1997	1998	1999
Argentina	116.3	103.0	94.4	93.8	100.0	101.9	98.9	96.8	89.4
Barbados	92.6	93.2	95.0	98.3	100.0	99.4	93.6	95.2	94.4
Bolivia	83.8	87.3	92.7	97.7	100.0	93.4	91.1	87.4	87.2
Brazil	108.5	117.3	112.6	113.6	100.0	94.2	93.2	97.6	147.1
Chile	111.8	108.1	110.1	106.3	100.0	96.4	90.0	92.4	97.2
Colombia	134.9	120.0	114.5	99.9	100.0	92.7	86.8	92.6	104.9
Costa Rica	108.3	103.1	103.1	103.6	100.0	99.0	101.2	102.6	106.8
Ecuador	114.8	116.0	103.4	98.1	100.0	100.4	96.2	94.7	131.2
El Salvador	125.4	124.7	112.5	105.7	100.0	92.2	91.9	91.7	92.8
Guatemala	110.0	109.0	110.2	104.6	100.0	95.2	90.4	91.5	104.8
Haiti	116.3	117.5	141.3	113.4	100.0	85.0	73.0	67.0	63.4
Honduras	98.1	92.9	103.9	115.4	100.0	101.6	96.2	88.1	85.3
Jamaica	92.8	108.0	101.1	103.6	100.0	84.2	72.3	67.9	62.7
Mexico	74.8	69.1	65.8	67.6	100.0	89.0	77.2	77.3	70.8
Nicaragua	84.7	85.6	89.7	95.4	100.0	102.2	108.0	107.6	108.7
Paraguay	96.5	102.0	106.4	100.5	100.0	95.7	94.0	103.5	101.8
Peru	94.8	94.7	106.2	100.2	100.0	98.6	99.1	100.5	109.3
Dominican Republic	104.5	108.8	106.5	103.0	100.0	93.5	95.7	103.9	112.2
Trinidad and Tobago	75.3	76.5	89.9	97.0	100.0	98.7	99.6	93.8	88.0
Uruguay	130.2	127.2	113.9	104.3	100.0	99.1	97.1	96.3	89.8
Venezuela	130.6	124.4	121.3	126.4	100.0	119.2	92.6	76.3	68.3

Source**:** ECLAC, on the basis of International Monetary Fund (IMF) figures.

[a] The average of the indices for the real (main official) exchange rate of each country's currency against the currencies of its main trading partners, weighted according to the relative magnitude of imports from these countries. The weightings are the average for 1992-1996. Consumer price indices were used in the calculations for each country. For information on the methodology and sources used, see ECLAC, *Economic Survey of Latin America, 1981* (E/CEPAL/G.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2.

In 1994, ECLAC launched the concept of "open regionalism" in Latin America and the Caribbean. This concept was used to describe the trend which existed at the end of the Uruguay Round, when the dynamism of subregional movements was combined with unilateral liberalization and the movement towards hemispheric integration.[3] Open

[3] In 1994, a number of interrelated events underscored the new complexity of trade liberalization processes. In January, NAFTA began to function. In March, the Uruguay Round agreements were formally signed in Marrakesh by more than 120 members of the former GATT, which permitted this body's transformation into WTO in January 1995. In December, the Summit of the Americas took place in Miami with the participation of heads of State and government, and a schedule of meetings was drawn up with a view

regionalism was defined as the interdependency between preferential agreements and de facto integration in response to market signals resulting from a broad and generalized liberalization (ECLAC, 1994).[4]

The basic rationale for this strategy is that unilateral liberalization does not guarantee the openness of purchasing markets. In an international environment in which national regulations still predominate, governments have retained their powers to determine and negotiate the access of persons, goods, capital and technology to their territories, and while tariffs are low, there are also new restrictions such as technical barriers and antidumping measures.[5] Thus, in an economy which is simultaneously undergoing profound globalization and regionalization processes, States are seeking to define market integration strategies which will allow them to achieve more secure access for their products to import markets.

During the 1990s the Latin American and Caribbean integration process found a direction and demonstrated a dynamism that would have been difficult to predict in previous years. The agreements signed in 1986 between Argentina and Brazil for the establishment of a preferential trade zone, which preceded the liberalization efforts mentioned above, marked the revival of integration. In 1991, with the accession of Paraguay and Uruguay, this bilateral agreement became the Treaty of Asunción, under which the Southern Common Market (MERCOSUR) was formed. In addition, in the late 1980s the Andean Group (which later became the Andean Community) had been reactivated, as had the Central American Common Market (CACM) and the Caribbean Community (CARICOM). These subregional integration schemes have succeeded in liberalizing most of the trade occurring within each group, have set up programmes to provide tax breaks for third parties and have adopted incomplete and

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to beginning the process of establishing FTAA. Further, the Seventh Meeting of the Common Market Council of Mercosur, held in Ouro Preto, also in December 1994, marked the completion of the process involved in setting up the MERCOSUR free trade area and the beginning of its existence as a partial customs union. The Asia-Pacific Economic Cooperation Council (APEC) also continued its plans for trade liberalization.

4 The expression “open regionalism” was originally suggested in the late 1970s by the Japanese Prime Minister Masayoshi Ohira, to define an open form of regional cooperation which would harmonize with the interests of the global community (Palacios, 1995).

5 As noted by Sáez and Valdés (1999, p. 94) in relation to Chile: “Obviously, unilateral openness is not necessarily reflected in openness of the markets of Chile’s trading partners. For example, it does not necessarily have any effect on their customs practices or the way they adopt and administer technical barriers, nor does it eliminate the restrictive practices applied by countries through the adoption of anti-dumping measures. Through agreements, however, it is possible to achieve preferential, assured and predictable openness which facilitates the development of export projects.”

gradual common external tariffs, which allow them to function as imperfect customs unions.

In late 1994, MERCOSUR was converted into a free trade area, with few exceptions, and the member countries undertook to establish a common external tariff, which should be fully operational by the year 2006.[6] The Andean countries, for their part, liberalized intra-group trade in 1992, although the common external tariff was fully adopted only by Colombia and Venezuela in that year, with Ecuador implementing it later, and only in a partial manner.[7] Free trade in CACM has been in place since the mid-1990s although all the member countries still retain a large number of reciprocal safeguards.[8] There is a commitment to achieving full application of the common external tariff by 2005, and it is hoped that the rapprochement between El Salvador and Guatemala will act as a catalyst for Central American integration (Tavares, 1999).

The member States of CARICOM have also agreed to liberalize intra-group trade entirely by about the middle of the decade, while the plans for member countries' tariff structures to converge towards a common external tariff were supposed to be implemented by the end of 1998. However, the CARICOM secretariat has noted that only 6 of the 14 member countries completed the final stage of convergence within the specified time limit.[9] The smaller countries are having difficulty in lowering their tariffs owing to the impact that such measures have on their tax revenue. As for the free movement of goods within CARICOM, seven countries require import licences in some cases and apply duties to "sensitive products", such as edible oils, rum and other alcoholic beverages, motor vehicles and fresh milk products.

At the same time, there has been a proliferation of partial-scope agreements, almost all of them bilateral, which have been referred to as “new generation agreements”, as their goals with regard to liberalization of the trade in goods are quite demanding. These agreements also include commitments in complementary areas, such as the liberalization of

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6 Argentina and Brazil have until 2001 and Paraguay and Uruguay until 2006.

7 Bolivia and Peru have maintained their respective national tariffs, while Ecuador is applying the common external tariff to about 60% of its tariff structure.

8 The Guatemala Protocol of 1993 established the objective of achieving economic union through voluntary agreement reached by consensus among the relevant States.

9 The CARICOM single market will be completed by implementing nine supplementary protocols which cover matters ranging from institutional aspects to competition rules. Protocols 1, 2 ,3 and 5, dealing with institutional aspects, rights of establishment, services provision and capital movements, industrial policy and agricultural policy, respectively, have been ratified. Protocol 4, which deals with trade liberalization and the establishment of a common external tariff, is being applied provisionally in 10 of the 14 members of CARICOM.

services, *ad hoc* dispute settlement mechanisms, the promotion of mutual investments and undertakings relating to physical infrastructure. These accords were prompted by the new commitments and subjects covered by NAFTA, which form part of the bilateral and plurilateral treaties in which Mexico plays a pivotal role. Within LAIA, some 10 of these agreements have been signed, in addition to those concluded by Mexico with Costa Rica and Nicaragua and the large number entered into between members of LAIA, on the one hand, and countries in Central America and the Caribbean, on the other, which generally stipulate preferential treatment for the latter.

It should be noted that the four existing imperfect customs unions in the region have the ultimate aim of establishing a common market. In addition to the liberalization of trade in goods and the establishment of a common external tariff, realizing this aim would involve facilitating capital movements, freeing up trade in services and allowing the free movement of persons. Only by adopting these complementary disciplines could the four subregional integration schemes fulfil their *raison d'être* and ensure their survival within a free trade zone that would liberalize trade throughout the western hemisphere, which is the goal being pursued by the FTAA initiative. The Ministerial Declaration of San José laid down an important principle in this respect: “The FTAA can co-exist with bilateral and sub-regional agreements, to the extent that the rights and obligations under these agreements are not covered or go beyond the rights and obligations of the FTAA.”

However, this positive movement towards greater integration among the Latin American and Caribbean economies was not immune to the consequences of the international financial crisis, which were felt in the region in the closing years of the 1990s. Although the integration process was able to withstand the unfavourable external environment, in 1999 intraregional trade in South America fell nearly 25%. This reduction demonstrates that intraregional trade links are still fragile and may be affected by a lack of financial liquidity.

The effects of the international financial crisis on the region spurred debate on the advisability of coordinating certain key macroeconomic policies, including foreign-exchange and fiscal policies. The member countries of both MERCOSUR and the Andean Community have adopted agreements aimed at bringing about gradual convergence of macroeconomic policies. Nevertheless, while demands for coordination have clearly increased, the countries' actual ability to accept specific disciplines in these areas has diminished as their national policies have become less effective in protecting their economies from external shocks. Also, in a context of economic contraction, there are still questions as to the feasibility of imposing regional and subregional commitments on economies whose intra-subregional trade linkages are still weak.[10]

(c) Market access: the Uruguay Round, contingency protection and other trade barriers

If the export model adopted by the Latin American and Caribbean countries in the past 15 years within the context of investment and trade liberalization is to lead to economic growth, various macro-, meso- and microeconomic conditions will have to be met. One of the most important is secure and predictable access to export markets. The Uruguay Round agreements promoted greater transparency in national trade regulations and policies and extended the multilateral rules that had previously been limited to industrial goods to new sectors such as services, the protection of intellectual property and corporate rights and other areas previously excluded from the multilateral trading system, such as agriculture, textiles and wearing apparel. Nevertheless, despite the efforts made by the developing countries during the negotiations, the results in terms of the distribution of the costs and benefits of these agreements were very unequal.

In the Uruguay Round, significant progress was made in negotiations to liberalize certain markets of interest to Latin America, agreement being reached both on traditional market-opening measures and on standards governing the use of domestic policy instruments. The latter included commitments to reduce tariffs on industrial products, to convert various non-tariff measures into tariffs, to reduce agricultural subsidies and to dismantle the quotas of the Multifibre Arrangement (MFA). Again, in a gradual fashion the Final Act of Marrakesh included the Agreement on Subsidies and Countervailing Measures, the Agreement on Implementation of Article VI of the 1994 General Agreement on Tariffs and Trade (GATT) (antidumping), the Agreement on Technical Barriers to Trade and the Agreement on the Application of Sanitary and Phytosanitary Measures.

The developed countries undertook to reduce tariffs on industrial products by 40% in the Uruguay Round, which translates into a reduction in the weighted average tariff for trade from 6.3% before the Round to 3.8% upon its conclusion (GATT, 1994).[11] Subsequently, various

[10] This is the case with Brazil and the member countries of the Andean Community.

[11] At the end of 1990, the tariff structure of the main importers, such as Canada, the European Union, Japan and the United States, was as follows: (i) the import-weighted average tariff rate was between 3.5% (Japan) and 6.6% (European Union); (ii) tariff-free lines varied between 11% (European Union) and 35% (Japan); and (iii) specific and

plurilateral agreements conceded additional reductions for pharmaceuticals, distilled alcohol and information technology products (Finger and Schuknecht, 1999).

The achievement of low average tariffs does not mean that import duties have lost their significance, however. The developing countries are facing two kinds of problems: the effects of tariff peaks, which are defined by the United Nations Conference on Trade and Development (UNCTAD) as tariffs higher than 12% ad valorem;[12] and tariff escalation as the degree of product processing increases. The problem of tariff peaks is particularly serious in six sectors: (i) main agricultural food products and basic products, particularly meat, sugar, milk and milk products, cereals, tobacco products and cotton; (ii) fruit, legumes and vegetables, and fish; (iii) processed food (e.g., orange juice and peanut butter in the United States); (iv) textiles and wearing apparel; (v) footwear, leather and travel items; and (vi) automotive products, transport equipment and electronic products. Despite the rollback of maximum tariffs since the Uruguay Round, the remaining degree of tariff escalation may still result in high effective protection rates on manufactures of interest to the region, such as metal products, textiles and wearing apparel, and wood products.

Although the Uruguay Round has regulated the implementation of sanitary and phytosanitary measures and the application of technical standards,[13] the increasingly frequent practice of applying quality, environmental or labour requirements as conditions of market access raises questions as to the associated levels of protection. In particular, the divergence between compulsory and optional standards and the failure to designate inspecting agencies to carry out multilateral certification of technical standards leave countries a margin of discretion in applying such measures.[14]

In the 1990s, the application of contingency measures significantly affected some of the key exports of countries in the region, although after the Uruguay Round they were reduced somewhat.[15] One particular case is

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compound tariffs still accounted for a substantial proportion of total tariffs (18% of the total in the case of the United States) (Laird, 1998).

[12] The definition adopted at the Uruguay Round applies the term to tariffs higher than 15% (GATT, 1994, p. 11). OECD works with a different variant of this concept, that of the "spike", which refers to a tariff that is more than triple the national average (Laird, 1998).

[13] The agreements concerned recognizes the role that these play in providing information and facilitating market transactions, and in responding to the growing public demand for products free of health or environmental hazards (UNCTAD, 1999).

[14] See the examples for Chile in Fisher (1997).

[15] However, assessment of the antidumping measures applied by industrialized countries reveals that they have not taken into account the recommendation contained in the relevant agreement of the Uruguay Round, which encourages member States to seek constructive solutions, such as price undertakings, when complaints concern developing

the on-going application of antidumping duties and countervailing measures by the United States to imports of iron and steel from three countries in the region (ECLAC, 1999b). In the case of the textile sector as well, the use of special safeguards, antidumping provisions, rules of origin and other technical requirements raise barriers to exports from the region and limit the gains in access that it has begun to enjoy under the Agreement on Textiles and Clothing.

Contingency measures have also been adopted by developing countries. In the region, the cases of Mexico (countervailing measures) and Argentina and Brazil (antidumping duties) have been prominent, and Chile has recently had recourse to safeguards. Brazil and Chile also applied countervailing duties prior to the Uruguay Round.

It is thus no surprise that a high proportion of the cases heard by the new Dispute Settlement Body (DSB) of WTO have concerned these topics. Furthermore, there has been a notable increase in the number of cases submitted to this body; specifically, 169 complaints were referred to the DSB during the period from 1995, the year of its establishment, to April 1999, which is considerably more than the total number of cases dealt with during the almost half-century of the existence of GATT (Thorstensen, 1999). It should also be noted that the main complainants have been industrialized countries (over 70% of all cases), and in particular the United States. Industrialized countries have also been the subject of about 60% of the complaints. The United States, the European Union and Canada have been the requesting party in two thirds of the consultations referred to the system and, together with Japan, have been involved in half of the cases. Mexico and Brazil, the main user countries in the region, have been named in less than 5% of the consultations, but together with Argentina and Chile, were involved in 13% of the cases.

2. Changes in external trade and regional heterogeneity

(a) Overall results

The different international economic strategies adopted by the countries of Latin America and the Caribbean within this general context have been instrumental in increasing the heterogeneity that the region already displayed in a number of areas, by diversifying its external trade characteristics.

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countries. On the contrary, in the vast majority of cases, tariff surcharges have been applied (Finger and Schuknecht, 1999).

As table II.3 shows, in the 1990s the region had one of the world's highest growth rates for merchandise trade, in terms of both volume and value. Between 1990 and 1999, exports grew, on average, by 8.5% in volume and 7.9% in value each year. These rates were exceeded only by China and the six highest-performing Asian countries. However, Latin American import growth, at 11.1% by volume and 12.1% by value, was even higher, and far outstripped that of other regions and countries, with the exception of China, whose rate was close to that of Latin America.

Table II.3
GROWTH IN WORLD MERCHANDISE TRADE, BY VOLUME AND VALUE, 1990-1999
(Average annual growth rates)

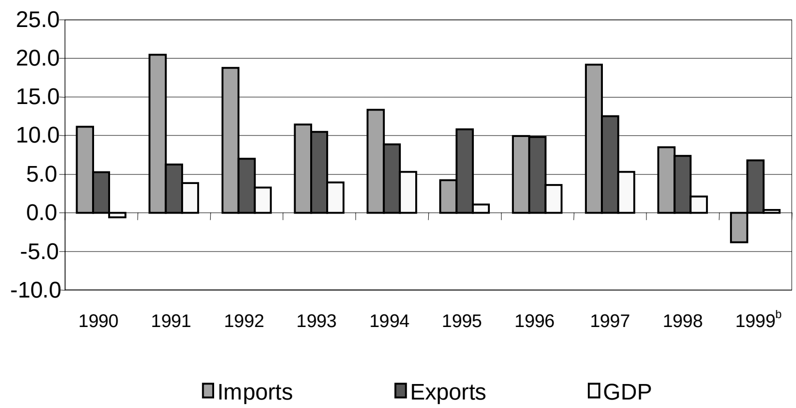
	World	Latin America	North America	Europe	Transition economies	Asia			
						Total	Japan	High-performing economies	China
Exports									
Volume	6.4	8.5	6.8	5.8	4.1	7.2	2.5	12.3	…
Value	5.8	7.9	6.8	4.5	5.3	8.9	2.9	8.5	14.4
Imports									
Volume	6.3	11.1	8.3	5.5	3.5	6.7	4.6	7.6	…
Value	5.9	12.1	8.3	3.8	6.9	5.6	2.9	6.2	13.3

Source**:** ECLAC, on the basis of figures from World Trade Organization (WTO), *Annual report 2000*, Geneva, 2000, tables II.2 and II.3, p. 10; *Annual report, 1999;* and *International trade statistics,* Geneva, 1999, tables I.2 and I.3, pp. 1 and 2.

Exports and imports both grew much more rapidly than gross domestic product (GDP), as shown in figure II.1. From 1990 to 1999, GDP increased by an estimated average of 3.2% a year, while exports increased by 8.5% and imports by an average of 11.1%.[16] As will be argued later, the regional averages conceal a growing heterogeneity, as the exports of just one country, Mexico, account for about half of all the external sales of Latin America and the Caribbean; also, its performance over the decade was more dynamic than the average for the rest of the region. For example, from 1990 to 1999 Mexican exports grew at an average annual rate of 13.8%, while Latin American exports, excluding Mexico, grew by about 7%.

[16] In 1999, imports declined by a little over 4%, causing a slight reduction in the import coefficient for the first time.

Figure II.1
TRADE AND GDP GROWTH IN LATIN AMERICA AND THE CARIBBEAN,[a]
1990-1999
(Growth rates based on 1995 dollars)



Source: ECLAC, on the basis of official figures.

[a] Includes 19 countries from the region: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.
[b] In 1999, GDP grew by only 0.4%, which is why the increase is barely visible in the figure.

As a result of this growth, the coefficient of regional exports to GDP reached 19.8% in 1999, which is much higher than the 12.1% recorded for 1989-1990. The expansion of imports over the 1990s, meanwhile, meant that the average coefficient of regional imports to GDP showed a rapid upward trend, reaching 20.5% in 1998, which is more than double the value for 1989-1990 (see table II.4). These values contrast with those of the 1980s, when imports as a share of regional GDP fluctuated around an average of 10%, owing to the countries' economic stabilization and adjustment programmes. The continuation of the 1997-1998 crisis into 1999 interrupted this trend, with the import coefficient falling that year for the first time in the decade, to a level similar to that of the export coefficient (20.1%).

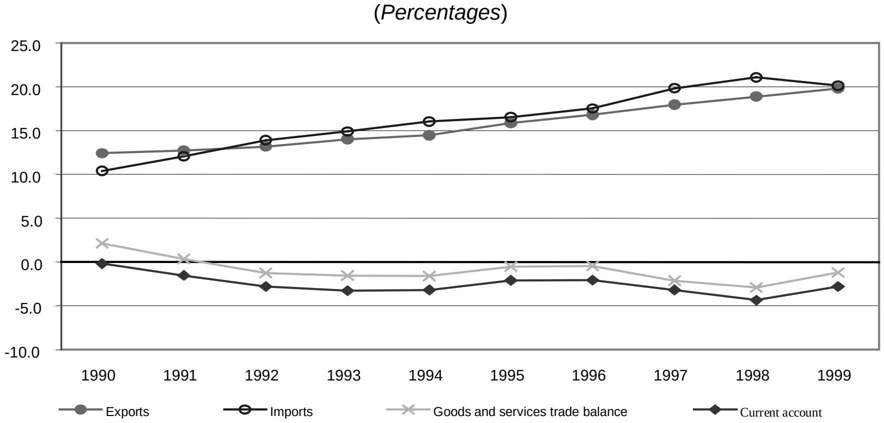
The gap between export and import performance led to an accumulation of growing trade deficits which, added to interest payments and profit remittances, caused the balance-of-payments current account to deteriorate. This deficit increased gradually from the late 1980s to the mid-1990s rising from 0.2% of GDP in 1990 to 3.2% in 1994, the year of the Mexican financial crisis, then diminished over the following two years, only to grow again in 1997-1998, when it reached 4.3% of GDP, after which it declined once more, falling to 2.8% in 1999 (see figure II.2).

Table II.4
EXPORT AND IMPORT COEFFICIENTS FOR LATIN AMERICA, 1980-1981, 1989-1990, 1997-1998 AND 1999
(Average values with respect to GDP, in 1995 dollars)

Country/ period	1980-1981		1989-1990		1997-1998		1999	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Argentina	5.0	8.0	8.2	4.0	11.7	14.9	10.9	13.1
Bolivia	15.1	20.4	18.7	24.4	20.6	31.4	19.0	27.2
Brazil	5.0	4.6	7.1	3.7	8.4	11.0	8.0	9.4
Chile	16.6	25.9	25.4	20.9	33.2	30.5	34.8	26.7
Colombia	8.7	10.2	11.0	7.7	14.5	18.6	16.8	14.9
Costa Rica	25.4	26.4	32.9	34.7	49.4	49.1	65.4	60.1
Ecuador	17.4	37.8	23.5	25.4	29.6	28.2	31.6	16.6
El Salvador	21.7	19.9	15.4	20.7	26.5	36.9	26.8	38.6
Guatemala	26.1	24.5	19.1	17.7	21.9	28.8	21.4	28.2
Haiti	9.5	13.0	9.7	11.0	14.4	31.1	17.0	38.1
Honduras	56.7	57.0	48.2	45.0	43.3	44.8	39.9	52.1
Mexico	9.0	16.6	15.1	16.9	31.3	32.0	35.5	36.3
Nicaragua	29.5	53.1	25.3	43.9	41.8	69.9	37.3	78.2
Panama	106.9	94.1	104.3	93.5	93.1	100.6	72.8	79.6
Paraguay	11.3	17.1	22.7	23.5	29.1	44.8	20.3	30.2
Peru	10.8	12.0	10.5	8.8	13.1	17.0	13.4	14.0
Dominican Republic	17.4	32.1	18.8	25.0	54.0	62.4	55.4	67.0
Uruguay	12.1	14.6	15.9	12.8	21.5	23.1	19.2	22.2
Venezuela	19.9	29.4	26.4	18.0	32.6	26.0	42.0	25.3
Latin America	8.7	12.1	12.1	9.9	18.4	20.5	19.8	20.1

Source**:** ECLAC, on the basis of official figures.

Figure II.2
LATIN AMERICA: TRADE AND THE CURRENT ACCOUNT AS A PROPORTION OF GDP
(*Percentages*)



Source**:** ECLAC, on the basis of official figures.

It is also important to note the growing contribution made by the services account balance to the total trade deficit, owing to the fact that imports of commercial services grew much faster than exports.[17] Thus, for example, in 1995 and 1996, after the Mexican crisis, the region accrued a surplus in its visible trade balance, but this was greatly exceeded by the deficit in the services balance. As table II.5 shows, the deficit in the services account from 1992 to 1999 accounted for three quarters of the total goods and services trade deficit.

Table II.5
GOODS AND SERVICES TRADE IN LATIN AMERICA AND THE CARIBBEAN, 1980-1999
(Millions of current dollars)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Trade in goods										
Exports	136 283	137 150	146 420	160 811	188 120	227 938	254 948	283 740	279 523	296 776
Imports	105 159	123 798	151 345	168 959	200 620	224 875	249 169	304 898	317 470	301 243
Balance of trade in goods	31 124	13 352	-4 925	-8 148	-12 500	3 062	5 780	-21 158	-37 947	-4 468
Trade in services										
Exports	25 114	26 794	29 460	31 349	35 139	36 838	40 769	40 902	44 903	38 883
Imports	33 273	36 085	40 240	44 504	47 780	48 625	54 504	57 326	62 200	56 540
Balance of trade in services	-8 160	-9 292	-10 779	-13 154	-12 641	-11 787	-13 736	-16 424	-17 297	-17 657
Balance of trade in goods and services	22 965	4 060	-15 704	-21 302	-25 141	-8 724	-7 956	-30 000	-51 123	-19 700
Services trade balance/goods and services trade balance (%)	-35.5	-228.9	68.6	61.7	50.3	135.1	172.6	54.7	33.8	89.6

Source**:** ECLAC, International Trade and Development Finance Division, on the basis of official figures from 19 countries of the region: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

After the sudden across-the-board decline in the region's terms of trade during the 1980s, in the 1990s there was a very slight upward trend, although with some variation among groups of countries, as shown by table II.6. This virtually static situation in the 1990s, of course, prevented the sharp deterioration of the 1980s from being reversed. In 1999, the

[17] WTO defines commercial services as the sum of transport activities, journeys and other commercial services. Consequently, they do not include government services or income from paid employment and investment.

terms of trade of South America, excluding the oil-exporting countries, were still 36% lower than in 1985.

(b) Export performance

While growing more strongly in the aggregate, exports from the region fluctuated considerably over the 1990s, although there were significant differences among countries and subregions. The first striking fact is the change in the relative performance of the two largest exporters, Mexico and Brazil, whose high weightings mean that they have a very considerable impact on average indicator values for the region as a whole. In 1999, Mexico exported almost as much by value as the rest of the region put together, accounting for about 48% of the total, whereas in 1988 its share was less than 28% (the figures for both years include *maquila* exports). In the late 1980s, by contrast, Brazil was the main exporter in Latin America and the Caribbean, accounting for 31% of regional exports. Since its exports had not doubled by the end of the 1990s, its share in the regional total was down to 17%.

Table II.6
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE FOR GOODS FOB/FOB, 1980, 1985 AND 1990-1999
(Indices: 1995=100)

Year	Latin America[a]	Oil-exporting countries[b]	South America[c] (non-oil)	Central America[d]	LAIA[e]	Andean Community[f]
1980	158.4	236.4	165.0	92.2	156.1	193.3
1985	123.2	165.2	126.2	77.8	121.5	157.6
1990	96.0	109.3	98.0	76.1	96.1	106.8
1991	96.9	105.6	98.1	83.9	96.9	97.7
1992	93.7	102.8	96.1	90.1	95.6	92.9
1993	93.5	105.8	96.7	93.4	96.4	91.9
1994	97.9	105.2	99.7	98.9	99.8	101.0
1995	100.0	100.0	100.0	100.0	100.0	100.0
1996	101.9	104.7	103.0	93.7	102.3	108.6
1997	104.1	105.1	104.0	101.5	103.8	107.9
1998	98.6	101.7	99.0	101.8	99.2	91.7
1999	98.8	103.9	90.2	96.3	106.3	101.8

Source**:** ECLAC, International Trade and Development Finance Division, on the basis of figures provided by the International Monetary Fund (IMF) and national institutions.

[a] Includes 19 countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.
[b] Includes Argentina, Colombia, Ecuador, Mexico and Venezuela.
[c] Includes Bolivia, Brazil, Chile, Paraguay, Peru, Uruguay and Venezuela.
[d] Includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama.
[e] Includes all the countries of South America, plus Mexico.
[f] Includes Bolivia, Colombia, Ecuador, Peru and Venezuela.

It is also worth noting that a number of countries have made significant progress in diversifying the range and quality of the products they export, while the trend towards greater concentration is not so homogeneous where destination markets are concerned. Mexico has been diversifying its output while concentrating on a few destinations, whereas Brazil has diversified its product range to a lesser extent than Mexico, but still considerably, and exports to a wider variety of destinations. Chile has been expanding the number of products exported while also increasing the number of markets. Colombia and Peru have followed a path similar to that of Chile, although to a lesser degree. Argentina does not show any significant change, while the other two members of MERCOSUR (Paraguay and Uruguay) display a pattern similar to that of Brazil, but with less product diversification and greater concentration as regards destinations, especially Paraguay. The main developments where Bolivia, Ecuador and Venezuela are concerned is the increase in the number of destination markets to which they export, with little change in the breadth of their product ranges. Lastly, the Central American countries, with the exception of Guatemala, have been diversifying both their products (especially Costa Rica and El Salvador) and their export markets, as figure II.3 shows.

A second important feature of the decade was the increase in the share of manufactured products at the expense of commodities in Latin America and the Caribbean, as can be seen from table II.7. Between 1988 and 1998, industrial goods increased their weighting from 63.9% to 76.2%, while that of commodities fell from 35.5% to 22.9%. Again, among industrial goods, the traditional ones (foodstuffs, beverages and tobacco, textiles and metals) increased their share slightly from 21.3% to 22.6%, with a decline in the case of the foodstuffs, beverages and tobacco group and an increase in the case of textiles and wearing apparel. Lastly, the share of goods classified as natural-resource-intensive with substantial economies of scale declined, whereas the share of durable goods and those classified as diffusers of technical progress expanded significantly.

It should be noted, however, that the product mix, destination markets and fast growth of Mexican exports have had a significant impact on regional averages. Mexico chose to create closer ties with the United States, through NAFTA, in order to guarantee an inflow of investment and thus more stable access to the United States market. This decision increased the relative importance of the United States as a destination market for Mexican exports[18] and led to significant changes in the composition of these. The share of commodities, particularly agricultural

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[18] The weight of the United States as a Mexican export destination, which was already substantial in 1988 (66%), increased even further, reaching about 87% in 1998.

and energy commodities, dropped very considerably, the gainers being industrial goods, especially those classified as final-use durables and as diffusers of technical progress, which more than doubled their share of exports. During this process, the share of assembly activities in the total of Mexican exports grew from 33% in 1988 to 45% in 1998.[19]

In their export mix, the economies of Central America and the Dominican Republic show similar trends to those seen in the case of Mexico, although the relative growth of assembly activities, again oriented towards the United States market, has been much more pronounced. Thus, the traditional industries, particularly wearing apparel, have increased their share, as, have electronic products. The English-speaking Caribbean, in contrast, does not show any significant changes in its export mix during the 1990s (see table II.7).

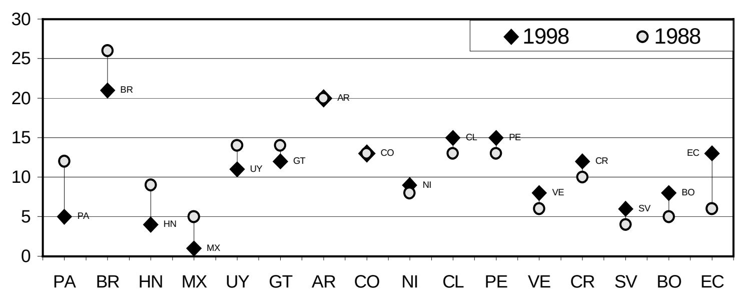
The export base of Brazil, the region's other large exporter was already highly diversified at the beginning of the decade, and became more so over the period, but export growth was slower. Brazilian exports grew at an average annual rate of only 3.2% over the 1990s, with the share of industrial goods classified as diffusers of technical progress and final-use durables increasing. The remaining countries in South America also showed minor changes, with natural-resource intensive goods, traditional industrial goods and commodities (in particular agricultural commodities) accounting for almost 70% of the group’s exports.

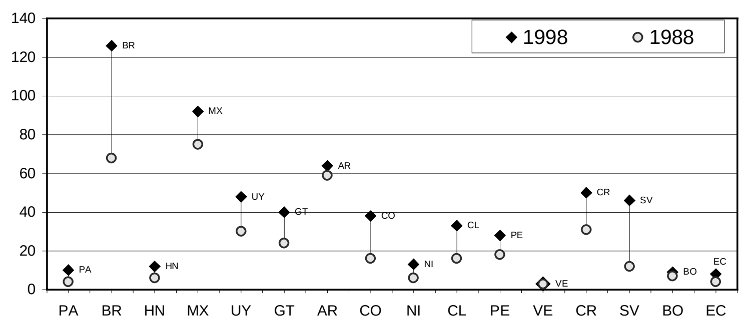
In short, Mexico and some Central American and Caribbean countries have managed to expand exports in dynamic sectors, primarily to the North American market, although assembly activities account for a large share. In contrast, the South American countries have also pursued export growth, but demand in the developed countries for the goods they export is rising only slowly, albeit they have succeeded in diversifying their destination markets.

[19] Assembly operations were exempt from import taxes on goods and components destined for re-export, up to 1 January 2001. However, few analysts expect these activities to stagnate as a result.

Figure II.3
DIVERSIFICATION OF EXPORTS FROM LATIN AMERICA, BETWEEN 1988 AND 1998

A. Number of destination countries





B. Number of products

Source: ECLAC, on the basis of official figures.

Note: Figure A shows the changes in the number of destination markets for 80% of each country's exports between 1988 and 1998. For example, in 1988 Brazil exported to more than 25 destinations, while in 1998 it exported to only 21. This is interpreted as an increase in the concentration of export destinations. Figure B shows changes between 1988 and 1998 in the number of products making up 80% of each country's exports. In the case of Brazil, the figure shows that just over 70 products accounted for 80% of the country's exports by value in 1988, while in 1998 the number of products making up this percentage was about 130. All products are defined down to four digits of SITC Rev. 2. These diversification measurements take no account of the quality of products in terms of their degree of processing or technological content.

Table II.7

COMPOSITION OF LATIN AMERICAN AND CARIBBEAN EXPORTS,[a] 1988 AND 1998

(Percentages)

Goods categories	Mexico [b]		Brazil		South America, except Brazil		Central America[c]		English-speaking Caribbean[d]		Latin America and Caribbean		Intraregional exports		South American extraregional exports	
	1988	1998	1988	1998	1988	1998	1988	1998	1988	1998[e]	1988	1998	1988	1998	1988	1998
Commodities	42.9	10.0	18.8	19.6	44.0	40.4	63.8	41.7	27.8	28.2	35.5	22.9	20.2	15.5	33.4	38.8
Agriculture	10.7	4.1	12.2	12.4	20.9	20.3	63.2	41.0	10.4	7.7	17.2	12.3	8.0	8.6	17.5	19.9
Mining	2.8	0.4	6.5	7.2	5.2	4.2	0.1	0.2	3.6	9.8	4.9	3.0	3.9	1.5	6.0	7.0
Energy	29.4	5.5	0.0	0.0	17.9	15.8	0.4	0.5	13.8	10.6	13.4	7.6	8.4	5.3	9.9	11.9
Industrial goods	56.7	89.9	80.1	79.2	55.6	57.8	35.7	58.2	72.0	70.2	63.9	76.2	79.4	84.3	65.9	60.1
Traditional	10.8	20.0	29.2	28.9	20.0	21.3	23.6	31.1	19.1	21.0	21.3	22.6	17.4	26.4	25.5	23.7
Food, beverages and tobacco	3.9	2.3	16.6	16.3	11.8	12.3	12.3	13.0	10.7	11.8	11.8	8.7	6.5	12.1	15.1	14.4
Other traditional exports	6.8	17.7	12.6	12.6	8.1	9.0	11.3	18.1	8.3	9.3	9.5	13.9	11.0	14.4	10.4	9.3
Natural-resource-intensive with substantial economies of scale[f]	20.6	8.3	31.5	24.1	33.1	27.6	6.9	8.9	50.4	47.3	29.5	18.1	40.7	28.2	31.3	26.7
Final-use durables[g]	10.2	24.0	8.7	10.7	0.8	5.1	0.2	1.1	0.3	0.1	5.4	14.2	8.7	15.4	3.9	3.2
Diffusers of technical progress[h]	15.1	37.6	10.8	15.5	1.8	3.8	5.2	17.0	2.2	1.7	7.7	21.4	12.5	14.3	5.2	6.4
Other goods	0.3	0.1	0.8	1.2	0.4	1.8	0.5	0.1	0.2	1.7	0.5	0.9	0.3	0.2	0.7	1.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: ECLAC, on the basis of official figures. For a detailed description of the classification used, see ECLAC *Panorama de la inserción internacional de América Latina y el Caribe, 1996* (LC/G.1941), Santiago, Chile, December 1996, pp. 217-225; and *Latin America and the Caribbean in the World Economy. 1998 Edition* (LC/G.2038-P), Santiago, Chile, March 1999, p. 172. United Nations publication, Sales No. E.99.II.G.3.

[a] Includes the following 25 countries: Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominica, Ecuador, El Salvador, Grenada, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Lucia, Suriname, Trinidad and Tobago, Uruguay and Venezuela.

[b] Since 1992, Mexico has been listing *maquila* products as "Goods". Before that date, they were classified under "Trade in services". Therefore, the data for 1988 and for 1999 are not comparable.

[c] Includes the following five countries: Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

[d] Includes the following eight countries: Barbados, Belize, Dominica, Grenada, Jamaica, Saint Lucia, Suriname and Trinidad and Tobago.

[e] In the case of Barbados, Belize, Dominica, Grenada, Paraguay and Suriname, where data for 1998 were lacking, 1997 figures were used.

[f] Includes, among other industrial commodities, petrochemicals, paper, cement and basic metals.

[g] Includes household electrical appliances and vehicles (and parts), as well as assembly operations.

[h] Includes machinery, instruments and fine chemicals, as well as assembly of those products.

The third significant feature was the progress made in intraregional trade, which recovered from a serious slump in the 1980s to expand rapidly in the following years —more rapidly, in fact, than exports to outside countries. By 1997, it accounted for more than a fifth of total exports from the region's countries, as can be seen in table II.8.[20] Economic liberalization and the consolidation of integration processes brought home to the countries the advantages of proximity and enabled them to capitalize on the potential of the region's markets, especially as outlets for manufactures and services. Aggregate data show that there was genuine trade creation among the member countries of integration schemes and preferential agreements, while trade diversion was limited on account of the general lowering of tariffs.

This process was particularly marked within the different subregional schemes, although two subperiods have to be distinguished. Between 1990 and 1997, the MERCOSUR group’s share in total exports grew from 8.9% to 24.8%, that of the Andean Community from 4.2% to 12.1%, that of CACM from 16% to 20.1% and that of CARICOM from 12.9% to 16.7%, in all cases within a context of sustained growth in overall exports. However, the recent crisis caused trade flows within the two South American groups to drop sharply from 1998 onwards, and especially in 1999, when trade dropped by 27.2% within the Andean Community and by 24.4% within MERCOSUR (see table II.8).

The two trends referred to —diversification of export structures and growth in intraregional trade— are related, as intraregional exports include a particularly high proportion of manufactured goods (84.3%, as against 76.2% for total regional exports) (see table II.7).

[20] This proportion is significantly higher if Mexico is excluded, once, as already mentioned, its links with the other countries of the region are weak.

Table II.8
LATIN AMERICA AND THE CARIBBEAN: EXPORTS, IN TOTAL AND BY SUBREGIONAL INTEGRATION SCHEME
(Millions of current dollars and percentages)

	1990	1994	1995	1996	1997	1998	1999
LAIA							
Total exports[a]	112 694	167 192	204 170	229 164	255 390	251 345	264 235
Annual percentage growth		10.4	22.1	12.2	11.4	-1.6	5.1
Exports to LAIA	12 302	28 168	35 552	38 449	45 484	43 231	34 391
Annual percentage growth		23.0	26.2	8.2	18.3	-5.0	-20.4
Percentage of exports within LAIA (2:1)	10.9	16.8	17.4	16.8	17.8	17.2	13.0
Andean Community							
Total exports	31 751	33 706	39 134	44 375	46 609	38 896	43 211
Annual percentage growth		1.5	16.1	13.4	5.0	-16.5	11.1
Exports to the Andean Community	1 324	3 472	4 859	4 698	5 621	5 411	3 940
Annual percentage growth		27.2	39.9	-3.3	19.7	-3.7	-27.2
Percentage of exports within the Community (2:1)	4.2	10.3	12.4	10.6	12.1	13.9	9.1
MERCOSUR							
Total exports	46 403	61 890	70 129	74 407	82 596	80 227	74 300
Annual percentage growth		7.5	13.3	6.1	11.0	-2.9	-7.4
Exports to MERCOSUR	4 127	12 048	14 451	17 115	20 478	20 027	15 133
Annual percentage growth	…	30.7	20.0	18.4	19.7	-2.2	-24.4
Percentage of exports within MERCOSUR (2:1)	8.9	19.5	20.6	23.0	24.8	25.0	20.4
Central American Common Market (CACM)							
Total exports	3 907	5 496	6 777	7 332	9 275	11 077	11 633
Annual percentage growth	…	8.9	23.3	8.2	26.5	19.4	5.0
Exports to CACM	624	1 228	1 451	1 553	1 863	2 242	2 333
Annual percentage growth	…	18.4	18.2	7.0	19.9	20.3	4.1
Percentage of exports within CACM (2:1)	16.0	22.3	21.4	21.2	20.1	20.2	20.1
CARICOM[b]							
Total exports	3 634	4 113	4 511	4 595	4 687	4 791	4 223
Annual percentage growth	…	3.1	9.7	1.9	2.0	2.2	-11.9
Exports to CARICOM	469	521	690	775	785	…	…
Annual percentage growth	…	2.6	32.4	12.3	1.2	…	…
Percentages of exports within CARICOM (2:1)	12.9	12.7	15.3	16.9	16.7	…	…
Latin America and the Caribbean[c]							
Total exports	120 572	177 336	216 031	241 648	269 996	267 213	280 091
Annual percentage growth	…	10.1	21.8	11.9	11.7	-0.8	4.8
Exports to Latin America and the Caribbean	16 802	35 065	42 740	46 562	54 756	51 674	42 624
Annual percentage growth	…	20.2	21.9	8.9	17.6	-5.6	-17.5
Percentage of exports within the region/total (2:1)	13.9	19.8	19.8	19.3	20.3	19.3	15.2

Source: ECLAC, on the basis of official figures from the different subregional groups: LAIA, the Andean Community, MERCOSUR and the Secretariat for Central American Economic Integration (SIECA).

[a] From 1992 onwards, Mexico's *maquila* exports are included in these figures.
[b] Includes Barbados, Guyana, Jamaica and Trinidad and Tobago.
[c] Includes LAIA, CACM, Barbados, Guyana, Jamaica, Panama and Trinidad and Tobago. This is not exactly the same group of countries as was taken for table II.5, as different aggregations and methodologies were used.

3. Size and composition of capital flows

(a) General trends

In the 1990s, the region was shaken by two financial crises: one in 1994-1995, known as the "tequila effect", which had a serious impact on Mexico and Argentina, and one which started in Asia in mid-1997 and later spread to Russia and Latin America. To see that these were not isolated events, it is sufficient to recall the debt crisis that scourged the region in the 1980s and then spread to other parts of the developing world. These recent events are in fact part of a long history of financial booms and busts, some of them confined to individual developing or industrialized countries, others international, which have disfigured the economic record of Latin America and the Caribbean (Ocampo, 1999).

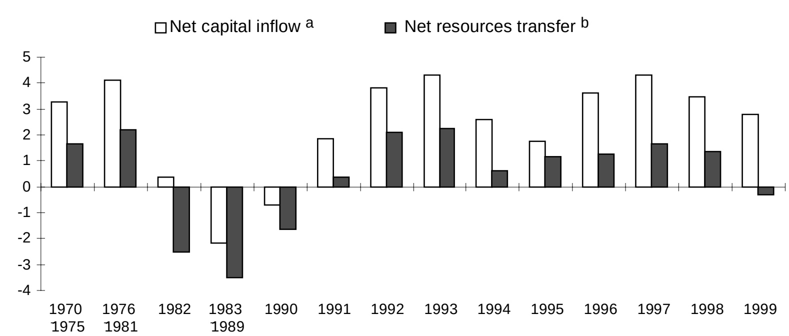
These events, then, reflect intrinsic features of financial market operations, which have not disappeared with the return in recent years of macroeconomic conditions characterized by subdued inflation and lower fiscal deficits. Volatility and contagion have been the terms most used to describe the two central features of financial market behaviour. The first denotes the market's tendency to move in pronounced cycles of financial boom and panic, in which capital flows tend to grow and then contract by more than the economic fundamentals would warrant. The second term refers to the market's inhability to distinguish adequately between the various types of the borrowers, and is applied to both the expansionary and contractionary stages of the economic cycle. In contractionary phases, the contagion of pessimism leads the markets to attach excessive importance to short-term negative information, while secondary markets become disorganized, leading to a general loss of liquidity. In expansionary phases, by contrast, the contagion of optimism leads many agents to underestimate the risks of channelling resources into economies or companies whose indicators, looked at objectively, are not entirely favourable.

Figure II.4 confirms the volatility of capital flows to Latin America and the Caribbean. Thus, there was a significant recovery in capital inflows into the region in the 1990s, after a period of financial stringency lasting almost throughout the 1980s. In 1991-1999, annual capital inflows averaged 3% of GDP, in sharp contrast to the huge outflows of 2% or so of GDP seen in 1983-1990. Even more striking was the situation in 1976-1981, when average annual inflows reached an unprecedented 4% of GDP, a level achieved only in the most expansionary years of the 1990s.

Not all types of flows, however, behaved in similar ways over the period. The most volatile were bond issues, portfolio flows and net commercial bank credits; in contrast, foreign direct investment (FDI), and of course official and compensatory financing, were much less volatile, as figure II.5 shows.

Because of the recovery in flows, the net transfer of resources[21] to the region was positive in the 1990s (except in 1990 and 1999), equating to 9% of regional goods and services exports. Once again, this situation was very different from that of the previous decade, when transfers out of the region fluctuated around 40% of exports, year after year, between 1982 and 1989 (see figure II.4).

Figure II.4
LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL INFLOWS AND RESOURCE TRANSFERS
(As a share of GDP, at current prices)

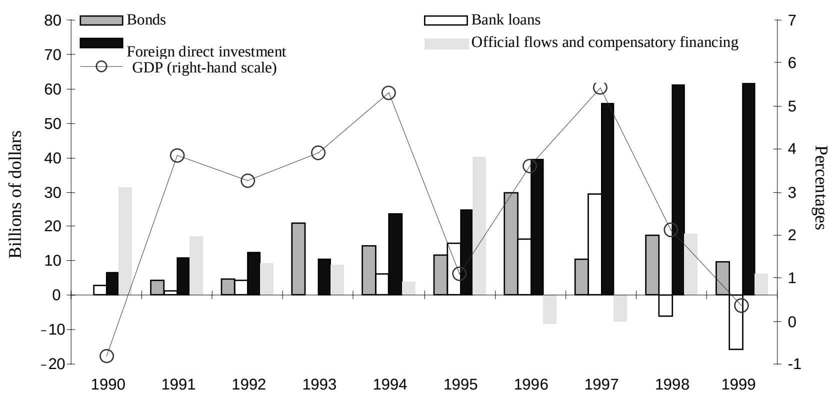


Source: ECLAC, on the basis of official figures.

[a] Net inflow of autonomous capital (figures include errors and omissions).
[b] Net transfer of resources is equal to net inflow of autonomous and non-autonomous capital (loans, IMF credit and special funding) minus the balance of the income account (profit and net interest).

[21] Defined as capital receipts (including compensatory financing minus factor service payments).

Figure II.5
LATIN AMERICA AND THE CARIBBEAN: EXTERNAL FINANCING AND TOTAL GDP



Source: ECLAC, on the basis of official figures from the World Bank and IMF.

Foreign direct investment (FDI) was the largest capital inflow component, displacing bank credits, which had held first place in the composition of capital inflows in previous decades. At the beginning of the 1980s, FDI represented only 20% of capital inflows. This proportion gradually increased in the 1990s, to reach over three quarters of the total in 1996-1999. Thus, in the last years of the decade, FDI took on a vital role in the financing of the balance-of-payments current account deficit in over half the countries of Latin America and the Caribbean.

During the 1980s, and particularly in the 1990s, the main beneficiaries were Argentina, Brazil, Chile, Colombia and Mexico. In the closing years of the decade, though, the geographical distribution of FDI diversified to include countries such as Bolivia, Costa Rica, the Dominican Republic, Ecuador, Peru and Venezuela. It should be noted that FDI was the only counter-cyclical private flow; Mexico received inflows of US$ 20 billion in 1994-1995 and Brazil had receipts of almost US$ 30 billion in 1998, which alleviated the crisis in both cases.

Again, from 1989 onward, the countries of the region gained extensive access to international bond markets, whose steady expansion was only interrupted by the after-effects of the Mexican financial crisis in 1995, and of the Asian crisis in 1998 (see table II.9). The region had only been able to have very limited recourse to this source of financing since the Great Depression (ECLAC, 1998b). In the 1990s, this flow went mainly to the larger countries (Argentina, Brazil and Mexico), which accounted for almost 90% of all bond placements, but it was also important as a source of financing for Chile, Colombia, Uruguay and Venezuela and, towards the end of the decade, for smaller countries such as Costa Rica, El Salvador, Panama and Trinidad and Tobago.

Table II.9
LATIN AMERICA: SOURCES OF EXTERNAL FINANCING
(Millions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
A. Debt[a]										
Official[b]	6 825	3 425	1 205	2 656	-1 344	9 295	-8 315	-3 239	9 059	6 300
Bonds	101	4 133	4 738	20 922	14 306	11 793	29 764	10 562	17 600	9 600
Banks	2 731	1 275	4 302	201	6 212	15 068	16 200	29 646	-6 078	-15 747
B. Investment										
Direct[a]	6 758	11 065	12 506	10 359	23 706	24 878	39 329	55 620	60 974	77 543
ADR[c]	98	3 891	3 964	6 022	4 704	962	3 661	5 441	164	761
C. Compensatory funding[d]	24 539	13 727	8 207	6 309	5 223	30 752	-271	-4 215	8 818	43

Source: ECLAC, on the basis of official World Bank, IMF and BIS figures.

[a]Net flow. [b]Includes bilateral and multilateral funding, with the exception of IMF. [c]American Depositary Receipts. Figures only include new share issues. [d]Includes IMF loans and credit access and special funding. At the beginning of the 1990s, special funding consisted mostly of overdue interest; in recent years, it has included resources from multilateral organizations other than IMF, and the governments of developed countries.

In the first half of the 1990s, the average term of new issues in the region was about three to five years. In 1997, when placements were at their height, the average term increased to 15 years, a situation for which there is no recent precedent. Later, in 1998-1999, the average term fell to about 7 years. Spreads on new issues also reached a low in mid-1997, but increased substantially in August 1998, after the Russian moratorium. In that month, the annual cost of external financing on the secondary Eurobond market rose to 15%, before falling to 12% in 1999. Of the countries that were most active in the market, Chile and Uruguay obtained the most favourable bond placement conditions; Mexico, which previously belonged to the following group, now obtains favourable terms as well, while Colombia, which used to rank with the above, has seen a tendency for its terms to deteriorate; and Argentina, Brazil and Venezuela get the most onerous terms.

Following a virtual cessation of bank lending (apart from supplier credit) after the Mexican moratorium in 1982, the net flow of commercial bank funds to the region remained very moderate until 1993, when it began to gather momentum, net funding of this type peaked in 1997 at around US$ 30 billion, but the balance turned negative in 1998, according to BIS estimates. This type of finance was particularly important for some private-sector companies in Argentina, Brazil, Chile, Colombia, Mexico and Venezuela. On average, bank borrowing conditions during the decade were worse than in the 1970s, especially in terms of repayment schedules.

Stock market investment went mainly to Argentina, Brazil, Chile and Mexico. The highest levels were reached in 1992-1993, prior to the Mexican crisis, and in 1997, prior to the Asian crisis. This flow showed quite pro-cyclical behaviour, as did American Depositary Receipt (ADR) investments, with inflows of about US$ 5.5 billion in 1993-1994 and US$ 4.5 billion in 1996-1997. In contrast, the total was very low in the years of financial crisis, closely matching developments in stock markets, which experienced their worst falls after years of strong growth.

Official financing behaved counter-cyclically —particularly in 1995 and 1998— after the financial crises referred to. Breaking down the total, it transpires that inflows of bilateral resources were negative for the region in the latter years of the decade, in marked contrast to those from multilateral sources, which followed a rising trend, especially from 1995 onward. During the periods of greatest volatility in the region over the 1990s, IMF and other multilateral organizations supported the governments of some countries that had been particularly affected, especially Mexico (US$ 30 billion) in late 1994 and Brazil (US$ 9.4 billion) at the end of 1998[22] (see table II.9).

(b) Foreign direct investment

World FDI flows increased substantially during the 1990s, rising from an annual average of US$ 245 billion between 1991 and 1996 to over US$ 650 billion in 1998, and to US$ 830 billion in 1999. Transnational corporations thus continued to gain importance in most national economies, whether developed or developing.

In the context of this general trend, growth in net FDI flows to Latin America and the Caribbean was very significant, as they increased from US$ 9 billion to US$ 86 billion between 1990 and 1999, according to ECLAC estimates. This extraordinary growth means that more than half of all FDI assets existing in 1999 had accumulated over the decade, a fact which suggests there is a need to reinterpret this phenomenon. Although a significant proportion of this FDI was used to purchase existing assets

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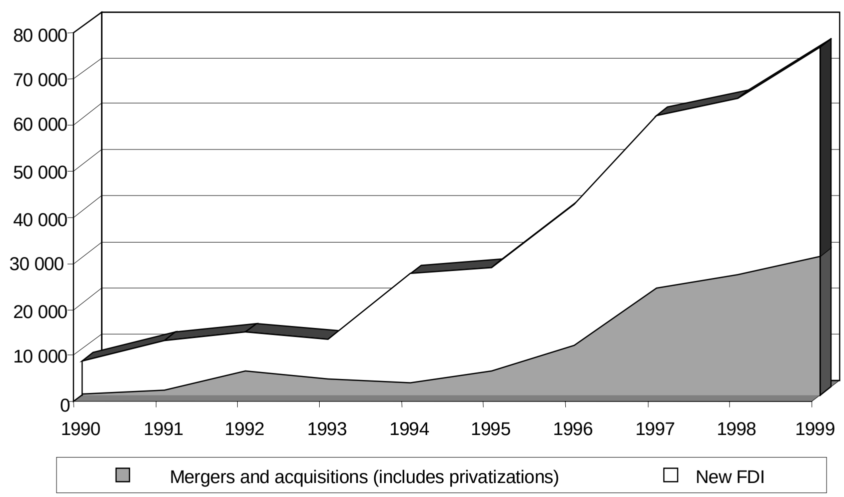
[22] This was the amount of the first IMF payment. The agreement between IMF and the Government of Brazil pledged a total of US$ 41 billion in external financing from multilateral organizations and from the governments of developed countries (Sáinz and Calcagno, 1999).

(privatized State enterprises or local private-sector companies), in the latter part of the decade, when these flows increased significantly, about 60% of all FDI was still being used to create new assets in the LAIA countries (see figure II.6).

Figure II.6
LAIA COUNTRIES: NET FDI INFLOWS, BY TYPE, 1990-1999
(Millions of dollars)



Source: ECLAC, Information Centre of the Unit on Investment and Corporate Strategies, Division of Production, Productivity and Management, on the basis of information provided by IMF, KPMG *Corporate Finance, 1999,* and ECLAC, Unit on Investment and Corporate Strategies, "Informe mensual de fusiones y adquisiciones", April to November 1999.

The share of FDI that went to purchase existing assets thus remained stable at around 40% of the total. It should be noted that the upsurge in mergers and acquisitions was due to the numerous operations carried out in the larger countries. In Mexico, the main mergers and acquisitions in telecommunications, financial services and retailing took place in 1995-1997. In Brazil they were more recent (1997 and 1998) while in Argentina and Chile the large sales of domestic private-sector enterprises took place in 1999. Of all mergers and majority acquisitions in the region, 70% were carried out as part of the Brazilian privatization process in the areas of telecommunications (sale of the Telebras system) and electrical power (especially the distribution segment). In the first half of 1999, Argentina became one of the focal points for mergers and acquisitions in Latin America owing to the purchase of Yacimientos Petrolíferos Fiscales (YPF) by Repsol. Something similar occurred in Chile with the acquisition of Enersis and Endesa-Chile by Endesa-Spain.

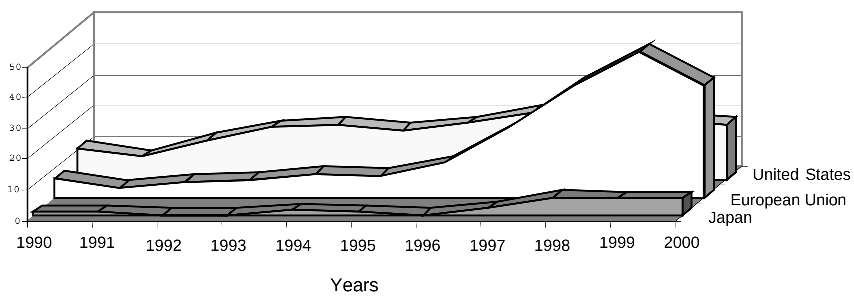
In the second half of the 1990s, subregions that had traditionally been less favoured by foreign investors became more significant with the total FDI share of the smaller economies of Central America, excluding financial centres, growing from 6.1% to 7.5% between 1997 and 1998.[23] In the latter year, the subregion attained the record figure of US$ 5.8 billion, with a similar amount in 1999. Despite the growing attraction of the Central American and Caribbean countries, however, the four largest Latin American economies continued to attract most attention from transnational corporations. During the period 1995-1999, Brazil (32%), Mexico (17%), Argentina (15%) and Chile (8%) received, taken together, more than two thirds of the region's net FDI.

Net FDI inflows are also becoming much more concentrated in terms of their main sources, as shown in figure II.7. In the last few years, approximately half of these inflows have come from the United States and half from Europe, with Japan confirming to have a small presence in the region. In 1998, the European share clearly exceeded that of the United States for the first time owing to large investments made by Spanish firms, chiefly in the form of mergers and acquisitions (ECLAC, 1999a and 2000b).

The increase in FDI has come about because transnational corporations have rethought their strategies in response to the globalization process and the new regime of macroeconomic incentives. Some have decided to seek greater efficiency by integrating their regional subsidiaries more into globalized programmes and tailoring new investments to new national and subregional circumstances (in the cases of NAFTA and MERCOSUR) and to the requirements of the world market. Others, actuated by a desire to defend or increase their market share, rationalized or expanded their operations in the national or subregional markets where they have a presence.

[23] In this book, Panama is included in this subregion, as in recent years its pattern of foreign investment has been observed to be similar to that of the other countries there.

Figure II.7
FDI FLOWS TO LATIN AMERICA AND THE CARIBBEAN,
BY MAIN SOURCES, 1990-2000
(Billions of dollars)



Source: ECLAC, Information Centre of the Unit on Investment and Corporate Strategies, Division of Production, Productivity and Management, on the basis of information provided by IMF, the United Nations Conference on Trade and Development (UNCTAD) and the central banks of each country.

The first of these strategies has been more in evidence in the case of Mexico, mainly in the automotive, vehicle parts, computer, electronics and wearing apparel industries (ECLAC, 1999a and 2000b). This is because, in response to the so-called Asian challenge in the United States market, the three largest United States automotive companies (General Motors, Ford and Chrysler, before its acquisition by the German company Daimler-Benz) and some from other countries (Volkswagen and Nissan) have taken a variety of measures to improve production efficiency, including investments in Mexico to build new plants with state-of-the-art machinery and technology. In the same way, other foreign firms have taken advantage of NAFTA and the *maquila* programme to invest in Mexico with a view to exporting to the North American market, most of them being manufactures of electronic products such as televisions, computers and sound and telecommunications equipment and wearing apparel.

As in Mexico, many United States companies have taken advantage of the availability of export processing zones (assembly activities), low wages and tariff preferences for exports to the United States to invest in or go into partnership with local businesses in the countries of the Caribbean Basin (Costa Rica, the Dominican Republic, El Salvador, Guatemala and

Honduras), in order to improve their competitiveness in the North American market. In the case of the Central American and Caribbean countries, most of these investments have been in the clothing industry and in the electrical and electronic equipment sector.

With regard to the second strategy of rationalizing and modernizing in order to create, defend or increase market share in a country or subregion, Argentina and Brazil, and by extension MERCOSUR, offer excellent examples. Foreign companies with a presence in these markets have been obliged to rethink their long-term strategies to cope with the new patterns of competition resulting from growing economic openness there. In general, companies have sought to maintain and expand their presence by producing essentially for local markets, but on a scale sufficient to compete with imports. Major investments have thus been made in the automotive and food subsectors and in the chemical and machinery industries. In the case of the automotive industry in MERCOSUR, companies with a large presence (Fiat, Volkswagen, Ford and General Motors) are investing to defend market share and to respond to rising demand, especially for compact cars. A large number of firms are also looking to enter or return to the subregion —examples being Chrysler, Renault, Peugeot, BMW, Daimler Benz, Honda, Asia Motors and Hyundai— with a view to positioning themselves in new market niches.

In addition to these two main strategies —openness towards outside markets and defence of national and subregional markets— new investment opportunities have opened up in sectors to which private enterprise in general, and foreign companies in particular, formerly had only limited access. This change has come about as a result of the deregulation of many public service and mining activities, and has led to a large influx of foreign companies in extractive industries (mining and hydrocarbons) and in services (mainly finance, energy and telecommunications). Thus, in addition to the two strategies described above, transnational corporations are pursuing a third, extraction of raw materials, and a fourth, the quest for access to local service markets.

The third strategy has come into being because natural resource exploration, extraction and processing activities have been opened up to foreign capital. Chile was the first country to attract the interest of the largest transnational corporations after granting extensive guarantees and open access to mining resources. Subsequently, in the 1990s, other countries such as Argentina, Bolivia and Peru adopted similar policies, attracting substantial new investments in mining activities (see chapter IV).

Another very significant development in the past few years has been the gradual liberalization of the hydrocarbons subsector, which until a few years ago was under state control. This has led to international investors establishing a growing presence in activities relating to oil and natural gas and derivatives of these, including exploration, extraction, processing, distribution and marketing, as governments have auctioned off secondary reserves, allowed joint ventures to be set up in certain key activities and, in some cases, privatized the entire subsector. The most striking cases in the region are Argentina, Bolivia, Colombia, Peru and Venezuela. In the last case, it is hoped that existing joint ventures between the State company Petróleos de Venezuela (PDVSA) and foreign investors will attract more than US$ 30 billion over the next 10 years, thus doubling Venezuela's hydrocarbon output.

The fourth strategy is to take advantage of far-reaching liberalization in service sectors to gain access to domestic markets in the region (see chapter V). This has meant that, in most of the countries, these activities have been accounting for a larger and larger proportion of FDI inflows. In fact, foreign investors, many of them new to the region, have been taking large and growing market shares in the finance, energy (electrical power generation and distribution and natural gas distribution) and telecommunications subsectors (ECLAC, 1999a).

In the case of the financial subsector, the most noteworthy strategy is the one that has been adopted by certain Spanish banks, in particular Santander, which merged with Central Hispano (BCH) in 1999, and Bilbao Vizcaya (BBV), which recently merged with Argentaria in response to this move by the Santander group. Owing to an energetic acquisition strategy, these banks have achieved a strong presence in the region, particularly in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. Overall, these two Spanish banks, along with the HSBC Group and the Canadian Bank of Nova Scotia, seem to be poised to take a position of strong leadership in the region's financial subsector.

As a result of the privatization of public enterprises, a new contingent of foreign investors have positioned themselves in the Latin American energy sector as well, the most prominent being Spanish firms (Endesa and Iberdrola) and a number of pioneering companies of United States origin (AES Corporation, Houston Industries Energy, Southern Electric, CEA, Dominium Energy and CMS Energy). Given the scale of the resources involved, consortia of foreign firms from different countries were created, and these acted in partnership with powerful local groups to take control of the privatized assets. Interests focused first on the privatizations in Argentina, and then on Brazil. A strong link also began to be established between natural gas transportation and distribution megaprojects and electrical power generation in Brazil.

Telecommunications firms have been among those most prized by foreign investors. Since the late 1980s, the main State fixed-line telephony companies of Argentina, Bolivia, Chile, Mexico, Peru, Venezuela and, recently, Brazil, have passed into private hands; cellular telephony services have also been auctioned off in almost all the countries. In this new environment, the most active firms have been Telefónica of Spain in basic telephony (local and long-distance calls) and the United States company BellSouth in mobile telephony. The recent privatization of the Telebras system revealed the level of interest felt by foreign companies in this type of assets in the region, as the Brazilian government received more than twice as much revenue from the sell-off as it had initially expected.

In short, by applying these four basic strategies (see table II.10), transnational corporations have helped the countries of Latin America and the Caribbean to integrate further into the international economy and to cope with the difficulties of internal change and the repercussions of the external upheavals that took place during the 1990s. Thus through new investment, some companies from a number of Latin American countries are beginning to be integrated into the global production systems of transnational corporations, at least in part. It should be noted, however, that a very large proportion of FDI has been used to purchase existing assets, and that profit remittances, which are the corollary of economic transnationalization, have begun to emerge as an increasingly significant item in the region's balance-of-payments current account. It should also be noted that there is still no sign in Latin America and the Caribbean of transnational corporations taking steps to seek out the kind of strategic components (research and development, for example) that are such a significant feature of the OECD countries and of certain branches of the electronics industry in some Asian economies, such as the Republic of Korea and Taiwan province of China.

Trade liberalization and stable monetary conditions also helped prepare the way for an increase in intraregional investment which, although still modest in terms of volume —between 3% and 5% of total foreign investment into the region— is significant in view of its fast growth and of certain attributes which give it a particularly important role to play in integrating the region's production and trade systems. Stimulated initially by privatizations, this investment took off in the early 1990s, having been virtually non-existent until then; investors subsequently concentrated on establishing a presence in subregional markets which were integrating through binding agreements, such as

MERCOSUR and the Andean Community. Investments of this type have been facilitated by the geographical proximity and cultural closeness of member countries and by the knowledge acquired by earlier privatization investors. They have targeted certain basic services (electricity generation and distribution in Argentina and Peru), the financial system (banking sector in Colombia and Venezuela) and the automotive and food-processing industries (Argentina, Brazil and Chile), among others.

Table II.10
LATIN AMERICA AND THE CARIBBEAN INVESTMENT STRATEGIES OF THE SUBSIDIARIES OF TRANSNATIONAL CORPORATIONS IN THE 1990s

Corporate strategy	Sector		
	Primary	Manufacturing	Services
Efficiency-seeking		Strategy 1 Automotive industry Mexico Electronics: Mexico and Caribbean Basin Apparel: Caribbean Basin and Mexico	
Market (national or regional) access-seeking		Strategy 2 Automotive industry: MERCOSUR Chemicals: Brazil Agro-industry: Argentina, Brazil and Mexico Cement: Colombia, Dominican Republic and Venezuela	Strategy 4 Finance: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela Telecommunications: Argentina, Brazil, Chile and Peru Retail trade: Argentina, Brazil, Chile and Mexico Electrical power: Argentina, Brazil, Chile, Colombia and Central America Gas distribution: Argentina, Brazil, Chile and Colombia Tourism: Mexico and the Caribbean Basin
Raw materials-seeking	Strategy 3 Petroleum/natural gas: Argentina, Colombia and Venezuela Minerals: Argentina, Chile and Peru		
Strategic component-seeking	Absent from Latin America and the Caribbean		

Source: ECLAC, *Foreign investment in Latin America and the Caribbean. 1999 Report* (LC/G.2061-P), Santiago, Chile, February 2000. United Nations publication, Sales No. E.00.II.G.4.

4. International labour migration

In the 1990s, two dominant migratory patterns were established in the region: movements between countries and emigration out of the region. Both patterns involved workers of varying skill levels (ECLAC-CELADE, 1999a). A third movement, immigration from overseas, has declined in volume over the past few decades, both because of mortality and emigration (return) among existing immigrants and because flows from Europe have shrunk, while immigrants from other regions, chiefly Asia, are few (table II.11).

Table II.11
LATIN AMERICA: IMMIGRANT POPULATION BY GENERAL REGION OF ORIGIN. NATIONAL POPULATION CENSUSES OF 1970, 1980 AND 1990[a]

Region of origin	Census date[b]			Annual growth rate	
	1970	1980	1990	1970-1980	1980-1990
A. Population (thousands)					
Rest of world (immigration from overseas)	3 873	3 411	2 350	-1.3	-3.7
Latin America and the Caribbean (intraregional migration)	1 219	2 012	2 201	4.9	0.9
Total	5 092	5 423	4 551	0.6	-1.7
B. Percentages					
Rest of world (immigration from overseas)	23.9	37.1	48.4		
Latin America and the Caribbean (intraregional migration)	76.1	62.9	51.6		
Total	100.0	100.0	100.0		

Source: Estimates prepared on the basis of the IMILA (Investigation of International Migration in Latin America) database of the Population Division - Latin American and Caribbean Demographic Centre (CELADE) of ECLAC.

[a] The number of countries included is 16 for 1970, 14 for 1980 and 13 for 1990.
[b] The dates are those of the national census rounds.

The doubling of the number of intraregional migrants between 1970 and 1990 is a clear demonstration of the first pattern, one of whose distinguishing features is the high concentration of migrant inflows in countries which have traditionally had more advantageous wage and employment conditions. Thus, around 1990, two thirds of all immigrants were in Argentina and Venezuela and a significant proportion of people born in other Central American countries were living in Costa Rica. In addition to the influence of structural factors, intraregional migration shows the effects of temporary circumstances, both socio-political and economic, for example, the social upheaval in various Central American countries in the 1980s provoked mass emigration, whereas the restoration of peace in the second half of that decade created favourable conditions for return (ECLAC-CELADE, 1999b). Again, geographical proximity, cultural similarity and a shared history all facilitate migration within the region (Pellegrino, 1995).

The momentum of this expansionary movement began to decrease in the 1980s. In the 1990s, Venezuela exercised far less of an attraction, whereas Argentina and Costa Rica re-emerged as favoured destinations in the early years of the decade. Furthermore, in what was perhaps the most striking phenomenon of the decade, new areas of attraction appeared, such as Chile and the Dominican Republic.

In general, linkages of a fairly informal kind have tended to arise among labour markets, supported by the information resources and contacts provided by the social networks of migrants themselves. This has helped strengthen yet further the increasing interdependence among the nations of the region and is a factor of particular importance for their efforts towards economic and cultural integration. It should also be noted that intraregional migratory currents are not confined to the movements of workers, as a significant proportion of the people involved are family members who do not participate directly in economic activity (ECLAC, 1999c).

Emigration out of the region has shown an even steadier growth trend than immigration, as is illustrated by the large number of Latin American and Caribbean immigrants recorded in United States censuses (see table II.12). In 1990, about 9 million people born in the region were present in the United States,[24] and information provided by the current Population Survey of the United States shows that this number grew even further over the five-year period 1990-1995 (ECLAC-CELADE, 1999b). Although the absolute figures are highest for Mexicans, the impact of this phenomenon relative to the population of the countries of origin is even greater in the case of the Caribbean nations. Again, in the last few decades, the average annual rates of increase for migrants from Central America have been the highest (ECLAC-CELADE, 1999a). As in the case of the intraregional pattern, the destinations of extraregional flows have tended to diversify in recent years, extending to Canada, some European countries (especially Spain), Australia and Japan, although the figures are markedly lower than those for the United States.

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[24] Half of all immigrants from the region came from Mexico, continuing a pattern of border migration which has deep historical roots, while a fifth were from the Caribbean countries.

Emigration from the region is a typical example of South-North migration originating in large disparities in development levels; its mass scale is explained by the feedback effect of migration networks acting as recruitment and facilitation mechanisms for further migration. A large, although not clearly determined proportion of the immigrants from the region living in the United States are undocumented, which puts them in a vulnerable situation. Nonetheless, immigrants of both sexes in the United States have high labour force participation rates and include a large number of people with skill levels that sometimes exceed the average for their countries of origin.

Table II.12
UNITED STATES: IMMIGRANT POPULATION OF LATIN AMERICAN AND CARIBBEAN ORIGIN. NATIONAL POPULATION CENSUSES OF 1970, 1980 AND 1990

Region of origin	Census date			Annual growth rate	
	1970	1980	1990	1970-1980	1980-1990
A. Population (thousands)					
South America	234	494	905	7.1	5.9
Mesoamerica	874	2 530	5 396	9.7	7.2
Caribbean and other	618	1 359	2 107	7.5	4.3
Total	1 725	4 383	8 408	8.7	6.3
B. Percentages					
South America	13.6	11.3	10.8		
Mesoamerica	50.6	57.7	64.2		
Caribbean and other	35.8	31.0	25.1		
Total	100.0	100.0	100.0		

Source: Estimates prepared on the basis of the IMILA (Investigation of International Migration in Latin America) database of the Population Division - Latin American and Caribbean Demographic Centre (CELADE) of ECLAC.

Among the most important of the many repercussions of international migration are the role of monetary remittances sent by migrants to their countries of origin and the loss of qualified personnel for those countries. The role of remittances is subject to different interpretations regarding the size and regularity of flows, their use for consumption or investment, the ties of dependency they may create among recipients and the distorting effect they may have on income distribution in the receiving countries. It is certainly true, however, that these remittances make a significant contribution at the macroeconomic level; it is estimated that the funds remitted in 1998 by Salvadoran immigrants in the United States were equivalent to 16% of El Salvador's GDP and to 60% of the value of that country's exports (ECLAC, 1999a). Remittances are also a form of support that can be significant at the local level, especially when they are used for services and housing infrastructure in the migrants' communities of origin.

Extraregional emigration by people with a high level of qualifications has been increasing, although evaluating the effects of this is a particularly complex task. Whilst emigration frequently benefits the individuals concerned, as it allows them to make use of their abilities and obtain higher incomes than in their communities of origin, it also means a loss of human resources which, apart from the high training costs involved, deprives their home countries of an important source of development potential.

In the 1990s, consolidation of the migratory patterns described was accompanied by diversification, with circular and seasonal movements, business travel, transfers of personnel working for large transnational corporations and periods of residency abroad for study purposes all increasing. The increased frequency of such movements, which are continually renewed, is one effect of the growing interdependence of markets at the international level and also reflects the predominance of the cultural standards of the more developed countries, since access to information and to the lifestyles and consumption patterns of these countries has been spreading to the rest of the world. The duration and geographical range of these new forms of travel have been increased by technological progress in the areas of transport and communications.

On the micro-social scale, social networks help to reduce the friction of geographical and cultural distance by making many obstacles to conventional migration easier to deal with. The result is a transitory form of migration which, although repeated, seems to prevent the links between individuals and their communities and countries of origin from being lost. This aspect seems to be particularly important in the case of highly-qualified human resources. Migration of this kind, however, also reduces the potential for generating surpluses to send as remittances and interrupts the continuity of such transfers. Also, frequently repeated movements may turn into permanent forms of migration when more rigid standards for entry or access to work are applied in the destination countries.

Chapter III

Macroeconomic performance

In the second half of the 1980s, macroeconomic policy had begun to be shaped almost exclusively by the requirements of stabilization plans, in a context that was dominated by strong external constraints which generated severe fiscal disequilibria and, in some cases, acute inflation. Consequently, consumption and investment shrank and per capita output declined over the decade.

As the external situation began to change in the early 1990s, it became feasible to use macroeconomic policy to reduce inflation and reactivate the countries' economies. Though the region was shaken by two crises in the second half of the 1990s, they were managed fairly successfully, which demonstrated a certain capacity for keeping major macroeconomic disturbances under control. These policies alone, however, were not sufficient to restore high growth rates or to free the region of its external vulnerability.

1. Macroeconomic policy

The main features of the early 1990s were increased inflows of external capital, the real appreciation of local currencies and reduced inflation. These factors paved the way for the consolidation of fiscal accounts, increased monetization and a change in the sources of money creation. As the fiscal deficit started to narrow in the late 1980s, domestic credit to the public sector began to decline in importance as a component of the money supply, although the situation varied from one country to another. Since then, the expansion of the money supply has been generated mainly by the increase in external assets and by credit to the private sector.[1]

The stabilization packages that were put into effect in the 1990s involved some elements of deindexation. In some instances this was explicit, as in the cases of the Convertibility Plan in Argentina and the Real Plan in Brazil. In other countries, such as Colombia and Mexico, the authorities adopted incomes policies based on tripartite agreements between unions, employers and the State, but did not resort to widespread price or wage freezes.

A favourable international context during most of the decade also facilitated the management of stabilization policies. The developed countries enjoyed low rates of inflation, while the availability of loan funds at the world level made it possible to finance the external deficits resulting from these policies, although they also added a degree of volatility. Beginning in 1991, considerable capital inflows to the region and decreasing international interest rates turned the net transfer of external resources positive for the first time since the sharp reversal of 1982. This favourable context was also partly due to the new policy among developed countries and international financial agencies of promoting packages of rescue measures for countries in severe financial difficulties (Mexico in 1995 and Brazil in 1998 and 1999).

Increased capital inflows and, in several countries, the use of the nominal exchange rate to anchor inflation brought about a real appreciation in the countries’ currencies, while the current-account deficit widened. This was one of the hallmarks of the 1990s and compounded the fragility of the regional macroeconomy.

As the authorities have concentrated —often exclusively— on achieving fiscal deficit and inflation targets, they have tended to underestimate the long-term costs of certain measures, particularly cuts in public investment and currency overvaluation. The use of a short-term perspective in the management of macroeconomic policy has also resulted in a procyclical bias. Phases of ready access to external resources have encouraged expansionary public- and private-sector spending policies of a type which tend to lead to recession when external conditions take a turn for the worse. In essence, the situation seen in earlier decades has

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1 The proportion of credit going to the public sector, which stood at 44% of all domestic credit in 1984 as a simple average of the countries of the region, began to decrease steadily from 1987 onward.

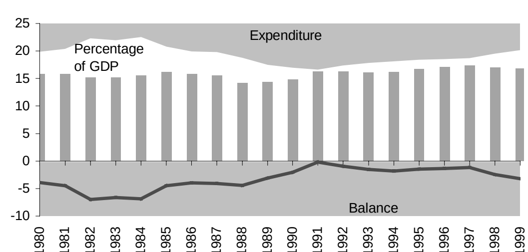
been repeated, with the difference that while boom and bust cycles used to be measured in decades (the high growth of the 1960s and 1970s, followed by the lost decade of the 1980s), they now occur within much shorter periods. There is reason to fear that external constraints will prove to be a much more limiting factor in the future, once the privatization trend that attracted unprecedented external resources and helped to finance imbalances in external accounts in the 1990s tails off.

(a) Fiscal policy and public finances

There can be no doubt that public finances in the region have become more balanced, and this is reflected in substantially smaller deficits and more careful deficit and debt management. In the 1980s, the adjustment essentially took the form of reduced spending. The need to place a high priority on the fiscal component of macroeconomic stabilization led to the deferral of other objectives of public finance. The most seriously neglected aspect of all was the distributive function of government. Cuts in public spending thus translated into major reductions in social spending by the public sector.

In the 1990s, more emphasis was placed on revenue enhancement, allowing a return to higher levels of spending, as shown in figure III.1.[2] Many governments were thus in a position to implement measures, particularly in the area of social expenditure, that reflected a growing awareness of the gravity of the situation, while maintaining moderate fiscal deficits (ECLAC, 1998c).

Figure III.1
LATIN AMERICA AND THE CARIBBEAN: FISCAL POSITION OF CENTRAL GOVERNMENTS, 1980-1999



Source: ECLAC, on the basis of official figures.

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[2] Based on consolidated data from 19 Latin American countries. Refers to the overall financial situation of the public sector on a cash basis and does not include quasi-fiscal components.

Despite these major achievements, the region's fiscal affairs continue to show evidence of some problems. Current public-sector saving gradually decreased during the second part of the decade as outlays rose and revenues stagnated. In fact, in 1998 and 1999 the region failed to achieve a primary surplus. Another problem is that deficit figures have been calculated using accounting procedures —such as the conventional cash basis (instead of accrual) and, on some occasions, the recording of income from privatization and international donations above the line— which have yielded more optimistic results than are really warranted.

It would be unwise, moreover, to dismiss the possibility that further repercussions may be in store, in the form of unrevealed quasi-fiscal costs, from the restructuring of financial systems that had to be undertaken by many countries hit by banking crises in the 1990s, including Argentina, Brazil, Colombia, Ecuador, Mexico, Paraguay and Venezuela. This is part of the problem of fiscal opacity that arises when the State gives public or private agents explicit or implicit guarantees that they will be bailed out should the need arise. Such guarantees jeopardize the solidity of public finances in a non-transparent way and particularly affect central governments. Brazil and Colombia are two of the countries which have been facing situations of this sort as a consequence of the decentralization of fiscal affairs.

Total revenue swelled during the first half of the decade, thanks to an increase in the tax burden and a higher level of economic activity, as well as non-recurrent revenues from privatizations. Tax reforms over the period helped to make the tax administration system more straightforward and efficient, and thus to reduce evasion in several countries. The region's ministries of finance afforded a high priority to combatting evasion (of taxes, customs duties and social security contributions) and reducing opportunities for tax avoidance.

From 1997 onward, however, non-recurring income from such sources as the sale of assets and the exports of State-owned firms began to decline. This situation was compounded in the late 1990s when the region was hit by two external shocks: the international financial crisis and falling commodity prices. Increases in interest rates, adopted to shield currencies from speculative attacks, raised the cost of short-term debt servicing and deepened the recessionary trend, which exacerbated the contraction of receipts.

The region's fiscal deficit increased from 1.1% of GDP in 1997 to 2.4% in 1998. In 1999, lower revenue and increased public spending again widened the fiscal deficit, which reached its peak for the decade (3.2% of

GDP). Increased public-sector financing charges in Brazil in the wake of the devaluation of the real weighed particularly heavily in this result, owing to the scale of this expenditure.

In consequence, the immediate future holds a series of fiscal challenges for the region. Infrastructure investments that have been postponed in the last two years, social needs, debt servicing and past or current financial bail-out costs are all exerting expansionary pressures on spending. Non-financial expenditure has tended to be reactive and procyclical, as has revenue, which has proved to be very sensitive to external disturbances.

Given the acute cyclical vulnerability of the region's economies, fiscal management may be able to increase the room for manoeuvre in macroeconomic policy through multi-year budget programming, especially in countries which have been able to place their fiscal affairs on a sound footing. If the authorities are successful in differentiating between structural and transitory results and in establishing equilibrium targets on the basis of the former, public finances should be in a position to provide an element of domestic stability and mechanisms to absorb external shocks. Saving non-recurrent income received during economic booms and then using it during periods of recession would help to attenuate fluctuations in domestic spending and reduce the volatility of both public- and private-sector financial balances.

In fact, several of the region's countries have taken major strides in this direction by creating sectoral stabilization funds, including the Copper Stabilization Fund and the Petroleum Fund in Chile, the National Coffee Fund and the Petroleum Stabilization Fund in Colombia and the Petroleum Fund in Venezuela. The main purpose of all these funds is to reduce the volatility of consumer prices or of the income received by public and private economic agents. A new "generation" of macroeconomic stabilization funds has emerged recently, including those of Argentina (Fiscal Responsibility Act, 1999) and Peru (Fiscal Prudence and Transparency Act, 1999), which are part of schemes to increase fiscal discipline and prevent financial crises. These new mechanisms are helping to engender a new culture of fiscal responsibility not only in central governments, but also a lower level of government, as, for example, in Colombia (Territorial Borrowing Act, 1996) and Brazil (Fiscal Responsibility Act, 2000).

Clearly, the task of strengthening public finances, rationalizing their management and consolidating domestic tax bases will involve dealing with fundamental problems, something which may be aided by the establishment of a fiscal covenant that will serve as a basis, together with sustainable public finances, for prioritizing the desired societal agenda.

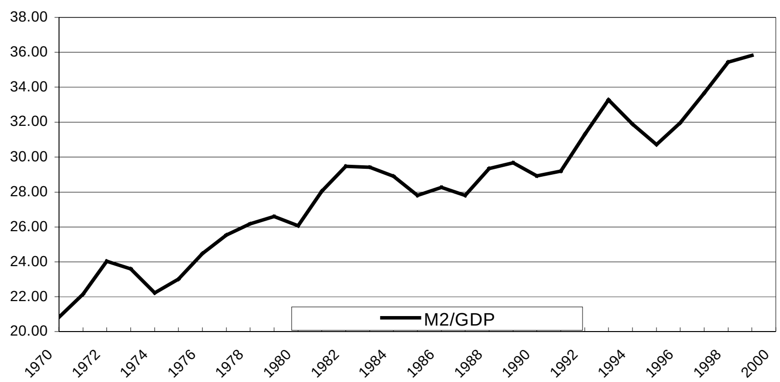
(b) Monetary policy

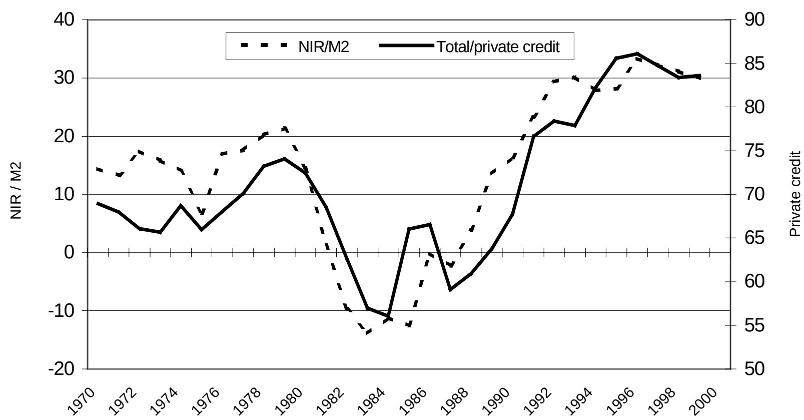
In the 1990s, monetary policies were, in general, consistent with the objective of controlling inflation, unlike the situation in previous episodes when the two were not so well aligned. As inflation came under control, these economies remonetized and saw an expansion of domestic credit in real terms. As figure III.2 shows, the liquidity ratio (M2/GDP), which had increased by almost 10 percentage points during the period 1970-1982, remained stable during the following 10 years. From 1992 onward, an increase in the demand for money coincided with a decrease in the rate of inflation and the replenishment of real balances. This increase in liquidity occurred against the background of an upswing in output, high real interest rates and falling inflation.

The composition of expansionary factors changed drastically in the period 1985-1995 and, then stabilized. Thanks to inflows of external capital to the region, a growing proportion of liquidity came to be backed by foreign exchange; the increase in external assets recorded on the consolidated balance-sheets of the countries' banks (including their central banks) was one indication of this trend (see figure III.2). The decreasing percentage accounted for by domestic credit is attributable to the fact that the fiscal deficit narrowed rapidly in the early 1990s and was increasingly financed by bond issues. It should be noted that in several countries the central bank is not allowed to issue loans to the government and, in addition, the separation of fiscal and monetary affairs has been reinforced by the greater degree of autonomy granted to central banks.

In this context of decreasing domestic credit, the remaining funds tended to shift from the public to the private sector, which accounted for 85% of domestic credit balances by the mid-1990s. This was a reflection of growing financial liberalization, which encouraged the transfer of lending to private firms and, increasingly, to households through mortgage and consumer loans as financial assets increased.

Figure III.2
LATIN AMERICA AND THE CARIBBEAN: MONETARY INDICATORS, 1970-1999[a]



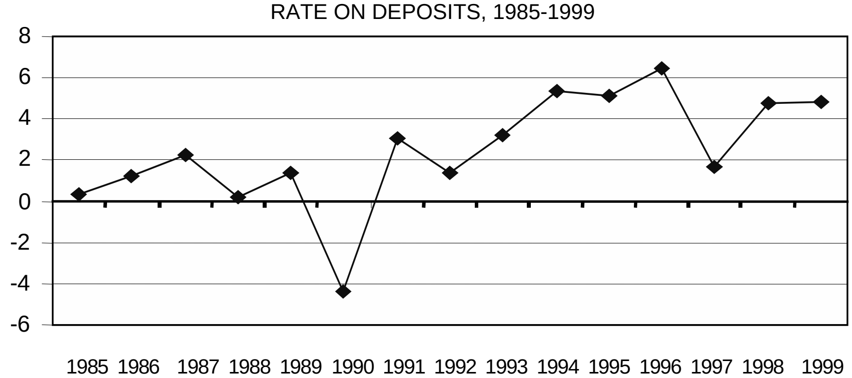


Source: ECLAC, on the basis of figures from official sources and IMF.

[a] Simple average, NIR: net international reserves/M2 and credit to the private sector/total domestic credit.

The monetary authorities took the approach of controlling the money supply indirectly, which was favourable to commercial banking. Reserve requirements and loan portfolio ceilings tended to be used less, while open market operations increased. Instead of controlling the commercial banks' capacity to create money (supply), monetary policy used the real interest rate to influence the demand for money and the composition of portfolios. Interest rates tended to rise from the mid-1980s onward. After the negative or zero rates seen in the early 1980s, real interest rates trended upward throughout the period 1985-1995, and the median annual rate of return on savings (time deposits) rose above 5%, as shown in figure III.3. With banking spreads frequently higher than 10 percentage points, the median lending rate was over 15% a year in real terms.

Figure III.3
LATIN AMERICA AND THE CARIBBEAN: REAL INTEREST RATE ON DEPOSITS, 1985-1999



Source: ECLAC, on the basis of data from official sources and IMF.

Open market operations helped to sterilize the monetary effects of external capital inflows, which were attracted to the region partly by high interest rates. This sterilization was another factor in generating quasi-fiscal deficits, however, owing to the difference between the financial yields of the domestic and international markets. Lastly, increasing volumes of government bonds in circulation made it possible to broaden the region's emerging domestic financial markets since, with the exception of a few of these financial centres, public instruments accounted for a large proportion of securities transactions.

Although some observers expected the development of the countries' financial systems to act as a driver of growth in the context of the new direction of regional development,[3] financial liberalization and the channelling of domestic credit to the private sector did not have the desired effects. Despite major efforts and achievements in some countries, the vulnerability of their economies was exacerbated by the expansion of financial activity under conditions of weak oversight and poor risk

[3] When the reforms began, there were expectations that the development of financial markets (which implies a high rate of financial saving) would favour long-term growth by increasing macroeconomic stability in the face of external or fiscal disturbances and improving intermediation between saving and investment.

assessment. Firstly, domestic saving did not respond to the increase in real interest rates and, secondly, a major share of loans went to finance household spending and investment projects in non-tradable services sectors, which opened the way for a boom in construction.

The liberalization of the financial sector and prudent macroeconomic policies have not succeeded in bringing interest rates close to international levels either. Rates continue to be very high, which is partly attributable to a negative perception of sovereign risk that is reflected in average spreads of around 700 basis points and a very wide range of variation (from 250 in Chile to over 1,000 in Ecuador).

During the most recent crisis, domestic interest rates soared even higher as a result of a number of factors: foreign-exchange difficulties (Chile and Colombia), fiscal conditions (Brazil) or problems in the banks themselves, in cases where deposits were lost (Argentina). Market segmentation, which adversely affected small and medium-sized enterprises and other small borrowers, was also fairly widespread. In the best of cases —i.e., when they were able to take out loans— these agents were obliged to accept considerable surcharges. In turn, the high cost of domestic financing has been reflected in increased external borrowing by large firms and the banking sector, which has increased their exposure to currency risk and their resistance to exchange-rate adjustments.

(c) Exchange-rate policy

As in previous decades, during much of the 1990s the nominal exchange rate was a significant factor not only in controlling inflation, but also in rebuilding confidence. In fact, only a few countries —of which Mexico was one— adopted flexible exchange-rate regimes before the most recent crisis, the most widespread practice being a dirty float controlled by the monetary authorities. The exchange-rate turbulence which accompanied the crisis led several countries (Brazil, Chile, Colombia and, temporarily, Ecuador) to adopt a floating system, and this regime is now the most common (see table III.1).

As a consequence of nominal exchange-rate control, national currencies tended to appreciate in real terms from the early 1990s until 1998 (see figure III.4). This revaluation was reflected in higher imports and large current-account deficits financed by external capital, which again began to flow into the region. Contrary to optimistic prognoses early in the decade, overvaluation became the Achilles' heel of stabilization strategies when external capital flows declined.

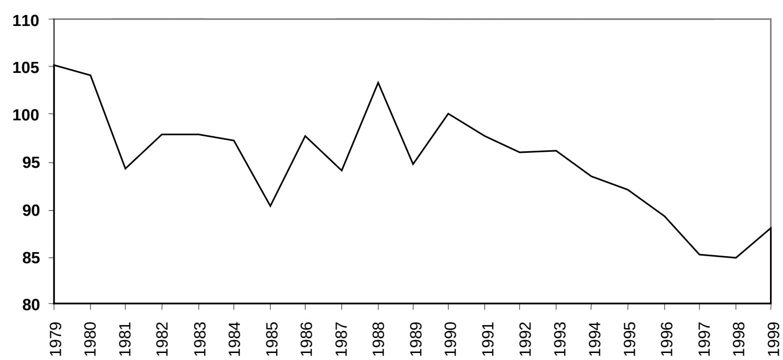
Table III.1
LATIN AMERICA AND THE CARIBBEAN: EXCHANGE-RATE REGIMES, 1999

Fixed, semi-fixed or dollarized	Crawling peg or currency band	Floating[a]
Argentina, El Salvador, Panama, Eastern Caribbean States	Bolivia, Costa Rica, Dominican Republic, Honduras, Nicaragua, Uruguay, Venezuela	Brazil, Chile, Colombia, Ecuador,[b] Guatemala, Guyana, Haiti, Jamaica, Mexico, Paraguay, Peru, Trinidad and Tobago

Source: ECLAC, on the basis of official figures.

[a] Floating schemes usually involve a certain amount of central bank intervention (dirty float).
[b] Ecuador announced a dollarization plan in early 2000.

Figure III.4
LATIN AMERICA AND THE CARIBBEAN: AVERAGE REAL EXCHANGE RATE, 1979-1999[a]



Source: ECLAC, on the basis of figures from official sources and IMF.

[a] Based on a simple average of annual variations, 1990=100. A positive change indicates real depreciation of the local currency.

The balance-of-payments crises suffered by Mexico in late 1994 and Brazil in early 1999 are examples of this phenomenon. In both cases there was a sharp correction in the real exchange rate, with quarterly variations of as much as 53.5% in Mexico and 43.5% in Brazil. Drastic changes like these and the ones that occurred in the early 1990s, especially in Argentina and Peru, helped to create situations of marked exchange-rate volatility. The coefficient of variation in the average real exchange rate was 11.9% over the decade, being particularly high in Argentina (20.5%),[4] Brazil (16.6%) and Mexico (13.7%), as shown in table III.2. Sharp fluctuations like these can be even more harmful to national economies than overvaluation, as the increased uncertainty complicates investment decisions.[5]

Table III.2
LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE FOR IMPORTS, 1990-1999

	Average annual rise	Coefficient of variation
Latin America (average)	-0.7	11.9
Brazil	5.2	16.6
Argentina	-10.7	20.5
Other Southern Cone countries	-1.5	9.5
Andean Community	-1.3	11.8
Mexico	-1.8	13.7
Central American Common Market	0.8	9.3
Caribbean	-0.3	13.1

Source: ECLAC, on the basis of figures from official sources and IMF.

Although debate continues on the long-term implications of unbalanced trade, from a macroeconomic perspective the exchange-rate lag heightened the Latin American countries' dependence on external financing and exacerbated the instability of their economies. The risk of inflation gave way to the risk of an external liquidity crisis. Control of fiscal deficits and monetary prudence proved insufficient to reduce the external deficit. Many of the structural reforms even had the effect of creating conditions that resulted in a widening of the gap. Greater availability of external capital was combined with lower rates of domestic —and particularly private-sector— saving, which was partially replaced by external saving. As the income elasticity of imports increased, with no offsetting rise in exports, the rate of output growth came to depend on how much external capital was available to finance the current deficit. This exacerbated the external dependency which has long been a feature of regional output growth.

4 This ratio was so high in Argentina because of the situation early in the decade, before the convertibility legislation came into effect.

5 If the economy is highly dollarized, liquidity crises may also occur in the financial sector.

2. Insufficient recovery of growth, investment and productivity

(a) Economic growth

Regional output grew at an average annual rate of 3.2% between 1990 and 1999, which was a little more than two percentage points higher than the average for the 1980s, when the region was hit by the external debt crisis. The 1990s figure, however, was considerably lower than the annual average of over 5.5% recorded for the long period from 1950 to 1980. Because of population growth in the region, per capita output increased at an annual rate of just 1.4% in the 1990s (see table III.3).

At the beginning of the decade, the reverberations of the external debt crisis were still adversely affecting the region's output. Stringent adjustment programmes continued to be applied in most of the countries in response to severe domestic and external disequilibria. As their stabilization plans began to yield results and the external situation improved, however, a number of countries began to record higher rates of expansion.

The large fluctuations in the rate of regional output growth were mainly attributable to trends in external capital movements (see figure III.5). After the scarcity of the 1980s, renewed —and eventually abundant— capital flows kick-started the upturn by strengthening domestic demand. What attracted capital flows back, besides world market conditions, were the region's superior rates of return and its stabilization and structural reform policies, particularly its economic liberalization and privatization programmes. The subsequent decrease in external capital flows led to substantial drops in consumption and investment and compounded the disequilibria in the external and fiscal accounts, as a result of which several countries slid into severe recession.

In late 1994, a currency crisis broke out in Mexico, triggering a sharp contraction in the level of activity. The crisis spread to other countries of the region and was particularly severe in Argentina, which also lapsed into deep recession. Both countries were able to control the situation, however, thanks to the policies they adopted to correct macroeconomic disequilibria and to the support they received in the form of abundant international credit.

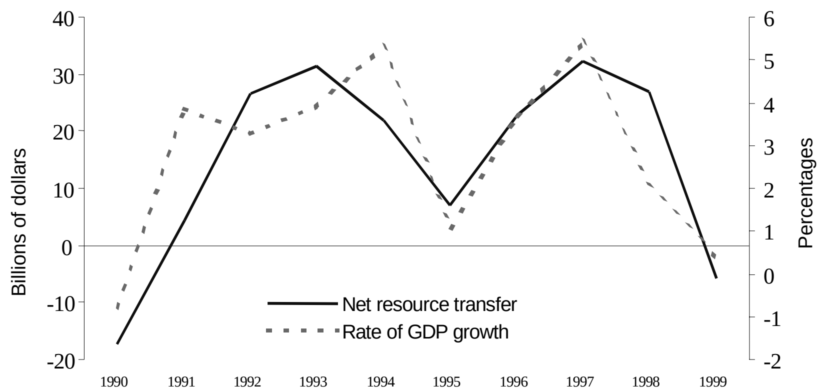
Table III.3
LATIN AMERICA AND THE CARIBBEAN: TOTAL AND PER CAPITA GDP
(Percentages, on the basis of 1995 prices)

	Total GDP		Per capita GDP	
	Average annual growth rate		Average annual growth rate	
	1980s[a]	1990-1999	1980s[a]	1990-1999
Total for Latin America and the Caribbean[b]	1.0	3.2	-1.0	1.4
Latin America and the Caribbean (except Brazil)	---	3.6	---	1.7
Argentina	-0.7	4.7	-2.1	3.3
Bolivia	0.2	3.9	-1.9	1.4
Brazil	1.3	2.5	-0.7	1.0
Chile	3.0	6.0	1.3	4.4
Colombia[c]	3.7	2.5	1.6	0.5
Costa Rica	2.2	4.1	-0.6	1.2
Cuba[d]	3.7	-2.1	2.8	-2.6
Ecuador	1.7	1.9	-0.9	-0.2
El Salvador	-0.4	4.4	-1.4	2.3
Guatemala	0.9	4.2	-1.6	1.5
Haiti	-0.5	-1.2	-2.4	-3.1
Honduras	2.4	3.1	-0.8	0.2
Mexico	1.8	3.1	-0.3	1.3
Nicaragua	-1.5	3.2	-3.9	0.3
Panama	1.4	4.7	-0.7	2.8
Paraguay	3.0	2.1	0.0	-0.6
Peru	-1.2	4.7	-3.3	2.9
Dominican Republic	2.4	5.0	0.2	3.1
Uruguay	0.0	3.2	-0.6	2.4
Venezuela	-0.7	1.9	-3.2	-0.3
Subtotal for the Caribbean[e]	0.1	2.0	-0.9	1.1
Antigua and Barbuda[f]	6.1	2.9	5.6	2.3
Barbados	1.1	1.4	0.7	0.9
Belize[g]	4.5	3.5	1.9	0.8
Dominica[g]	4.4	2.6	4.8	2.7
Grenada[g]	4.9	2.9	4.7	2.6
Guyana	-2.9	6.6	-3.4	5.6
Jamaica	2.2	0.4	1.1	-0.5
Saint Kitts and Nevis[g]	5.8	4.3	7.0	4.6
Saint Vincent and the Grenadines[g]	6.5	3.2	5.5	2.3
Saint Lucia	6.8	1.9	5.3	0.6
Suriname[f]	0.5	1.4	-0.7	1.1
Trinidad and Tobago	-2.6	3.0	-3.9	2.3

Source: ECLAC, on the basis of official figures expressed in constant 1995 dollars.

[a] Calculated on the basis of constant 1990 prices. [b] Does not include Cuba. [c] Values for the period 1997-1999 are ECLAC estimates based on provisional figures provided by the National Administrative Department of Statistics (DANE). [d] Calculated on a constant local currency basis. [e] Calculated on a factor cost basis. [f] Figures for 1990-1997. [g] Figures for 1991-1998.

Figure III.5
LATIN AMERICA AND THE CARIBBEAN: GDP GROWTH AND NET RESOURCE TRANSFER, 1991-1999



Source: ECLAC, on the basis of figures from official sources and IMF.

Regional output increased rapidly again in 1996 and 1997, but the crisis in South-East Asia caused a new contraction to begin in 1998. The difficulties were compounded by the collapse suffered by Russia in the second half of the year, which led to a sharp reduction in external capital inflows and a fall in international commodity prices. The situation was further complicated by the devaluation of the Brazilian currency in early 1999. As a result, regional output growth slowed markedly in 1998, and even more severely in 1999. The impact was felt in Brazil and the other MERCOSUR countries, in Chile, Colombia, Ecuador and Venezuela, and in several countries of the Central American isthmus and the Caribbean.[6]

The combination of the 1980s crisis and the instability of the new pattern of recovery and expansion that emerged at the end of the decade meant that output growth by the end of the 1990s was well below potential. Regional output in 1999 was barely 54% of the figure it would have been if the growth trends seen before the debt crisis had been maintained.

Economic performance also varied from one country to another during the 1990s (see table III.3). Only three countries (Chile, the Dominican Republic and Guyana) attained annual growth rates of more than 5%. Fifteen recorded rates of between 3% and 5%, while thirteen

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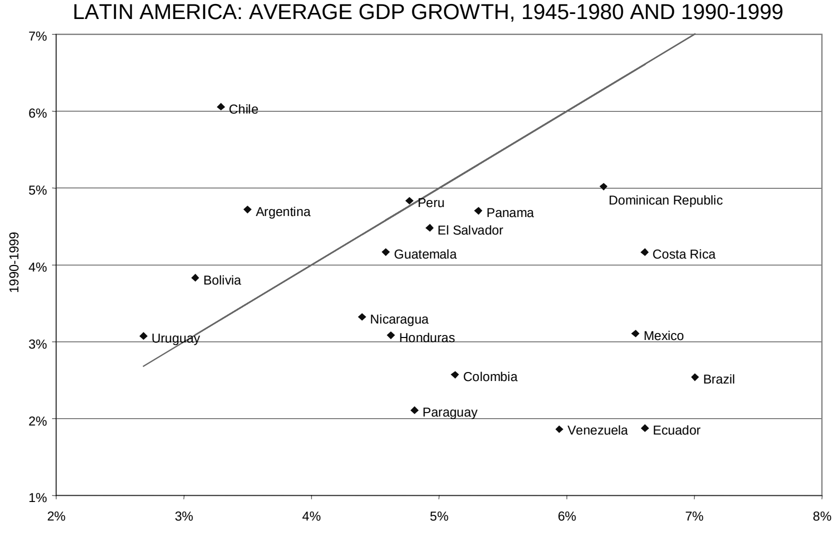
[6] Several of the region's countries have fallen victim to major natural disasters in recent years, which has further compounded this adverse situation.

grew by less than 3% a year and two recorded negative growth (Cuba and Haiti). Cuba implemented far-reaching economic reforms in response to severe external disturbances early in the decade and was thus able to return to positive growth rates in 1994. If output growth is considered in per capita terms, the list of countries in which it was negative extends to take in Ecuador, Jamaica, Paraguay and Venezuela. Eleven countries saw growth rates increase by three or more percentage points over their respective averages for the 1980s. Argentina, Guyana, Peru and Trinidad and Tobago were particularly striking cases, as their growth rates outstripped the previous decade's averages by more than five percentage points. However, twelve countries —all of them in the Caribbean, except for Colombia and Paraguay— recorded a poorer performance in the 1990s than in the previous decade.

The balance-sheet for the decade in terms of growth is disappointing, as only a few countries (Argentina, Bolivia, Chile and Uruguay) were able to improve on the growth rates they recorded before the debt crisis (see figure III.6).[7] Examination of per capita output trends, however, reveals a more favourable picture, as three further countries bettered their pre-debt crisis figures (the Dominican Republic, El Salvador and Peru).

Figure III.6
LATIN AMERICA: AVERAGE GDP GROWTH, 1945-1980 AND 1990-1999



Source: ECLAC, on the basis of official figures.

7 These same four countries had the region's lowest growth rates during the period 1950-1980.

The differences in growth rates, far from leading to convergence in per capita income levels, actually caused intraregional disparities to increase, since the countries with the lowest per capita incomes grew at slower rates than those with the highest per capita incomes (see table III.4).

Table III.4
LATIN AMERICA AND THE CARIBBEAN: GROWTH DIFFERENTIALS BETWEEN HIGHEST AND LOWEST PER CAPITA INCOME COUNTRIES, 1980-1999

Countries by level of income	Per capita income in 1990[a]	Annual rate of per capita GDP growth[a]	
		1980s	1990-1999
Five lowest per capita income countries	577.8	-2.5	0.9
Ten lowest per capita income countries	993.1	-1.7	1.2
Five highest per capita income countries	5 102.6	-1.2	2.0
Ten highest per capita income countries	4 074.3	-1.0	1.9

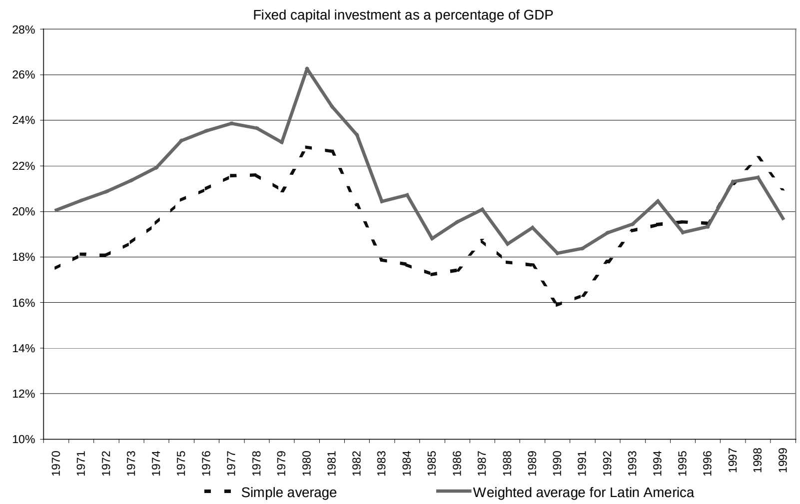
Source: ECLAC, on the basis of official figures.

[a] Simple average.

(b) Investment and productivity

In the 1980s, the fixed investment ratio in the countries of the region fell sharply (see figure III.7). In earlier periods, output had expanded in response to a relatively high —and rising— level of public- and private-sector investment, which stood at between 23% and 26% of GDP in the second half of the 1970s and the early 1980s. From 1983 to 1989 the fixed investment ratio did not rise above 21%, owing to worsening terms of trade and capital outflows. Even when the region began to see an upswing in the second half of the 1980s, there was no upturn in the investment ratio, largely because access to external financing was limited (ECLAC, 1990).

Figure III.7
LATIN AMERICA AND THE CARIBBEAN: FIXED CAPITAL INVESTMENT AS A PERCENTAGE OF GDP, 1970-1998
(Constant 1995 prices)



Source: ECLAC, on the basis of official figures.

The improved external environment that set the scene for the 1990s upturn made for a recovery in investment from 1992 onward. Fixed investment grew at an annual rate of 4.9% between 1991 and 1999, from a relatively low starting point (see table III.5). This regional average was lower than historical rates, but this was mainly attributable to the weight of the Brazilian economy within the region, as the country's investment grew at an average rate of only 1.7% over the period. Calculation of a simple average or median value reveals a more favourable investment trend in the 1990s than in previous periods, as these measures are less affected by developments in the larger countries.

This increased investment effort, however, did not bring about a rise in labour productivity in the region, with the notable exceptions of Argentina and Chile. Analysis of a representative group of eight Latin American countries, the results of which are shown in table III.6, shows that labour productivity growth in the region remained below the levels seen in the high-growth period which began in the post-war years and ended in 1980.

Table III.5
LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED INVESTMENT, 1971-1999
(Average annual variation)[a]

Country	1970s	1980s	1990-1999
Argentina	3.3	-7.6	10.9
Bolivia	3.2	-0.1	10.7
Brazil	10.2	-1.4	1.7
Chile	1.8	4.6	17.8
Colombia	5.2	1.6	1.5
Costa Rica	8.4	2.1	5.4
Ecuador	9.9	-3.7	-1.1
El Salvador	4.0	0.3	8.4
Guatemala	5.9	-2.6	9.9
Haiti	11.8	-0.8	0.2
Honduras	6.9	-0.8	9.0
Mexico	8.3	-1.2	4.8
Nicaragua	0.2	-1.5	13.6
Panama	3.4	-7.9	20.5
Paraguay	17.7	1.0	0.4
Peru	7.3	-4.2	6.9
Dominican Republic	11.0	1.1	11.7
Uruguay	8.2	-7.6	8.0
Venezuela	7.4	-6.2	1.7
Latin America			
Weighted average	7.3	-2.4	4.9
Simple average	7.1	-1.8	7.5
Median	7.3	-1.2	8.0

Source: ECLAC, on the basis of official figures.

[a] Rates of variation calculated on a dollar basis at constant prices.

In the same period, the region's capital productivity improved, by contrast with the negative result recorded in the period running up to 1980. This increase in capital productivity, however, was not enough to improve the overall efficiency with which productive resources were used in the region and thereby increase the rate of output growth. The growth rate of total factor productivity in the eight countries mentioned was on average slightly lower during the 1990s (1.6%) than in the period 1950-1980 (2%). In addition, part of the growth recorded in the 1990s —around 0.3%— came about because of the recovery in output after the deep recession of the 1980s. These growth rates were not enough for the region to catch up rapidly with the developed countries, where total factor productivity rose by 1.1% in the 1990s.[8]

[8] By way of comparison, in the recently industrialized Asian countries total productivity grew by more than 3% a year during the 1990s.

Table III.6
LATIN AMERICA AND THE CARIBBEAN: TOTAL FACTOR, LABOUR AND CAPITAL PRODUCTIVITY IN SELECTED PERIODS, 1950-2000
(Average annual rates of growth)

Country	Change in total factor productivity		Change in labour productivity		Change in capital productivity	
	1950-1980	1990-2000	1950-1980	1990-2000	1950-1980	1990-2000
Argentina	1.5	3.2	2.5	3.6	-0.8	1.2
Bolivia[a]	2.0	0.6	2.5	0.3	0.3	-0.5
Brazil	2.6	0.4	3.9	0.9	-3.3	-1.0
Chile[b]	2.0	3.4	3.5	4.8	-0.4	-1.0
Colombia	2.4	0.9	2.8	1.5	0.6	-1.8
Costa Rica	2.2	1.9	3.5	2.1	-0.6	0.3
Mexico	1.8	0.8	3.8	0.5	-2.0	-1.0
Peru	1.9	1.4	2.9	1.1	-0.4	1.0
Average	2.0	1.6	3.2	1.8	-0.8	-0.2

Source: A. Hofman, Crecimiento y productividad en América Latina. Una visión comparativa a largo plazo (LC/R.1947), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), December 1999. The updating to 2000 has been done by the author.

[a] First period: 1950-1978 instead of 1950-1980.
[b] First period: 1950-1970 instead of 1950-1980.

(c) Saving-investment ratios and the external deficit

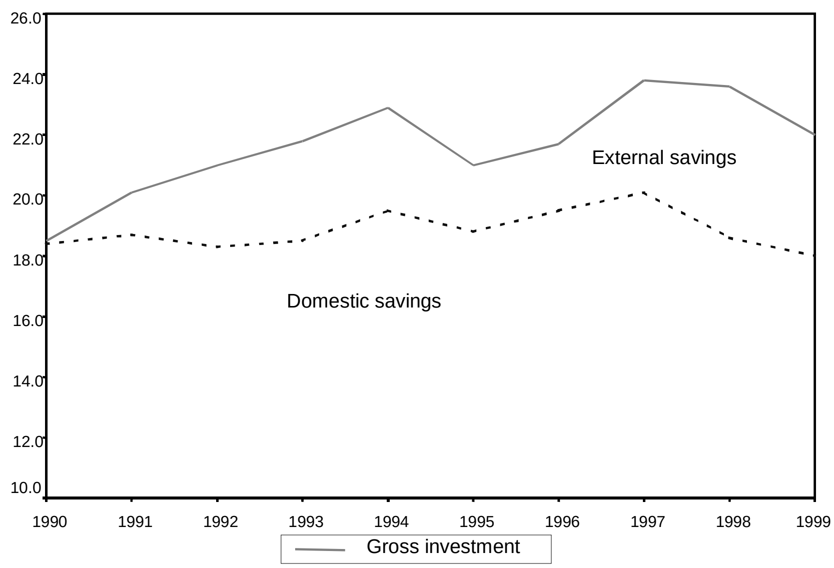
Higher investment ratios during the 1990s were almost entirely due to the greater availability of external savings which, measured in constant prices, had grown by 1998 to the almost unprecedented level of 5% of GDP, a figure matched only in 1981. In 1998, such savings financed over 20% of total investment, which stood at 23.7% of output. By comparison, external saving in 1990 represented only 0.1% of GDP, measured in constant 1995 dollars, and contributed only marginally to gross capital formation, which stood at just 18.5% of output that year (see figure III.8).[9] However, in spite of the record levels of FDI that flowed into the region in 1999, external savings in that year dropped to their 1996 level as a consequence of the financial distress that followed the Asian crisis.

Gross domestic saving increased by barely one percentage point of GDP over the decade. This poor performance was partly due to the decline in public-sector saving. Although this improved in several countries in the first half of the period, it later deteriorated to end the decade at around 2%, which was the lowest level recorded since 1991. Private saving likewise failed to improve to any significant degree, owing to the channelling of domestic credit into consumption and to the

[9] Calculations of external saving at constant prices tend to produce different results from current-price calculations based on the current balance-of-payments deficit.

large-scale replacement of domestic saving by external saving as capital inflows increased.[10]

Figure III.8
LATIN AMERICA AND THE CARIBBEAN: SAVING-INVESTMENT RATIO, 1990-1999
(Percentage of GDP, in constant 1995 dollars)



Source: ECLAC, on the basis of official figures.

This substitution of saving, and the increased investment effort needed to prevent the sustained growth trend from being reversed, caused the trade deficit to widen. As can be seen from figure III.9, the region's external vulnerability was more marked in the 1990s than in earlier high-growth periods. In fact, whereas in the 1970s a trade gap of 1% of output allowed growth of 5.5%, in the 1990s a similar trade deficit was accompanied by a considerably lower rate of growth (3.2%). This comparison is even starker if a simple average is taken for the countries of the region.

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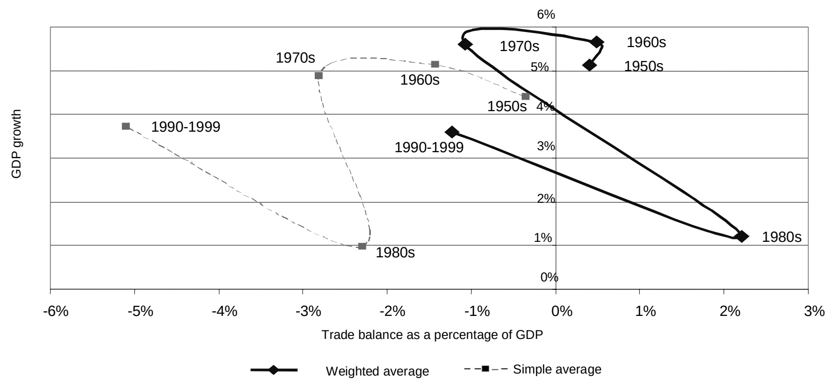
[10] Half of the variation in external saving was matched by a corresponding variation in public- or private-sector consumption. See Uthoff and Titelman (1998).

Figure III.9
LATIN AMERICA AND THE CARIBBEAN: TRADE BALANCE AND ECONOMIC GROWTH, 1951-1998

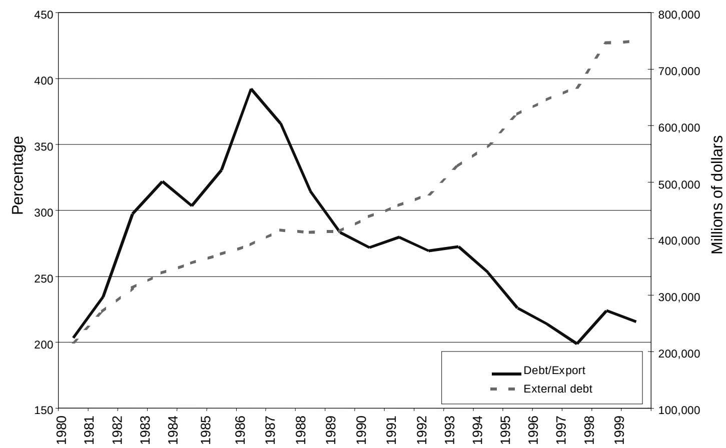


Source: ECLAC, on the basis of official figures.

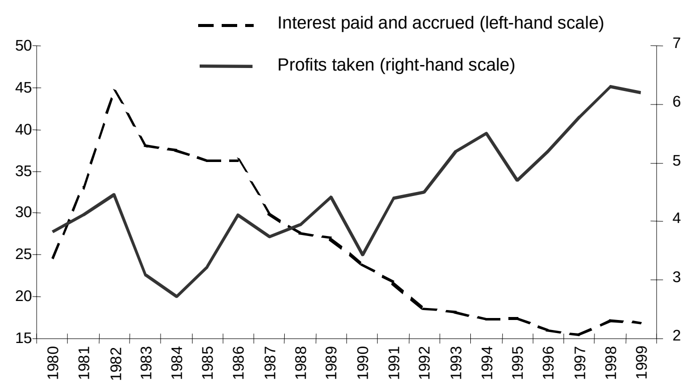
By contrast with what happened in the 1970s, the use of external resources to finance investment in the 1990s had not resulted by the end of the decade in external debt rising to unmanageable levels. Although the external debt of Latin America and the Caribbean almost doubled over the decade, increasing from US$ 435 billion to US$ 756 billion, debt serviceability indicators improved at the same time, being kept within reasonable limits by the good performance of the export sector. Thus, the ratio of total external debt to the value of goods and services exports decreased steadily from 1986 onward, after peaking at close to 400%. By the end of the 1990s, this ratio was about 220% (see figure III.10).

In the future, however, investments in the region will generate an outflow of profit remittances. This situation is already beginning to arise since, while accrued external debt service interest as a proportion of total exports decreased from 22% to 16% over the decade, remitted or reinvested profits as a proportion of exports increased from 4% to 6% (figure III.10).

Figure III.10
LATIN AMERICA: EXTERNAL DEBT AND DEBT-EXPORT RATIO, 1980-1999



LATIN AMERICA: FACTOR SERVICES AS A PROPORTION OF GOODS AND SERVICES EXPORTS



Source: ECLAC, on the basis of official figures.

3. Inflation

The average inflation rate in the region showed a strong and steady decline in the 1990s, dropping from a high of over 1,000% in 1990 to just 10% in the last three years of the decade, with more than half of the region's countries recording single-digit rates. This decrease was the result of a radical change in macroeconomic conditions which began in a few countries in the late 1980s, then gradually spread to the rest of Latin America and the Caribbean. Brazil implemented a successful stabilization programme in 1994, which brought about an immediate drop in the country's rate of inflation and further accelerated the rapid fall in the regional indicator. This initiative played a vital part in bringing a long and traumatic period of inflation to an end, which was one of the most positive features of regional macroeconomic performance in the decade (see table III.7).

Table III.7
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICE INDEX, DECEMBER TO DECEMBER
(Average annual percentage variation)

	1950s	1960s	1970s	1980s	1990s
Weighted average	16.7	21.8	42.8	273.6	104.6
Simple average	10.4	8.9	27.2	109.6	25.9
High-inflation countries[a]	23.4	16.5	45.6	421.1	60.4
Other countries	6.6	6.8	22.1	23.0	16.4
Median	3.6	3.2	13.8	23.8	15.5

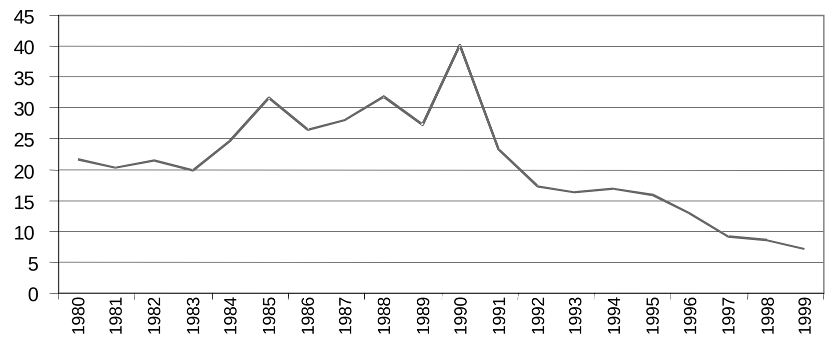
Source: ECLAC, on the basis of official figures.

[a] Argentina, Bolivia, Brazil, Nicaragua and Peru.

The most notable feature of the process was the way in which the countries of the region converged from very different starting points; in the 1980s there were enormous disparities, and these carried over well into the 1990s. The debt crisis triggered hyperinflation in Argentina, Bolivia, Brazil, Nicaragua and Peru, which caused the region's average inflation rate to trend upwards. However, the median rate, which removes the bias imposed by the larger countries, shows inflation peaking at 40% in 1990 (see figure III.11), when the average rate was 1,371%. In consequence, the mean deviation from the average decreased from 3,500 in 1988 to just 7 in 1999.

Just as the magnitude of the inflationary process varied greatly from one country to another, the measures adopted in response to the problem were also very different, notwithstanding the convergence shown by the results. In countries which had an annual inflation rate of three or more digits, the preferred tools were the exchange-rate anchor, fiscal adjustment and deindexation, which gave rapid results.[11] In countries with lower rates of inflation, a wider range of policy tools were used and in general the decrease was slower and more gradual.

Figure III.11
LATIN AMERICA AND THE CARIBBEAN: MEDIAN INFLATION, 1980-1999



Source: ECLAC, on the basis of official figures.

Consequently, inflation rates fell faster in countries which had been hit by hyperinflation. Bolivia was able to bring inflation under control before 1990, while Argentina, Brazil, Nicaragua and Peru did so during the first half of the 1990s, achieving very low rates by the second half of the decade. Inflation also decreased in most of the other countries, in several of them by a large amount. Panama and the small islands of the Caribbean maintained their usual low rates of inflation. Only two countries, Ecuador and Venezuela, have recorded annual rates of over 30% in the last three years. While the situation has improved of late in Venezuela, in Ecuador inflation rose above 50% in 1999. These inflationary surges show that, notwithstanding the progress seen thus far, it is still difficult to keep inflation low and stable throughout the region.

4. Financial crises

In the last two decades, numerous episodes of insolvency have affected the banking systems of the countries in the region. Banking and currency crises associated with the debt problems that beleaguered Latin

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[11] Even in these cases there were considerable differences in the policies employed: Argentina used a shock policy, while Brazil and Mexico took a more gradual approach.

America and the Caribbean in the 1980s were followed in the 1990s by financial problems in several countries, some of which still persist.

The insolvency problems that beset the countries of the region reflected wider events at the international level. A recent IMF study shows that 133 of that organization's 181 member countries experienced significant banking problems between 1980 and 1996, including 41 banking crises in 35 countries (IMF, 1998). As a result, in the 1990s financial problems took on a global dimension that had not been seen since the depression of the 1930s.

(a) Causes of recurring financial problems

The widespread banking problems seen in the region in the last two decades were largely attributable to the implementation of financial liberalization policies in environments where the risks of portfolio losses were high. These environments were characterized by deficiencies in the application of prudential standards relating to bank solvency and liquidity, macroeconomic conditions that were prone to sharp adjustments and fluctuations, and structural weaknesses in national financial systems resulting from low domestic saving rates and immature markets.

In the absence of measures to improve bank solvency through stronger regulation and prudential oversight, financial liberalization opened the way to strong lending growth and excessive risk exposure in the credit markets (Mishkin, 1996). Over the last two decades, financial liberalization and market opening have proved to be among the most reliable harbingers of currency crises, which have generally been preceded by large influxes of external capital, growing currency risk exposure and marked increases in the volatility of financial flows (Wyplosz, 1998).

Weaknesses in regulation and prudential oversight may be due to failings in external regulations adopted by virtue of the legislation and standards that constitute the institutional framework within which banks operate, or to deficiencies in the internal rules of the banks themselves. Loopholes in external rules lower the quality of the lending process, open the way to the formation of financial services conglomerates of the kind seen in a number of the region's countries, and increase the likelihood that financial crises will arise in certain circumstances.

Closely related to these deficiencies in external regulations are the flaws seen in banks' internal lending controls, i.e., in their self-regulation (Goodhart and others, 1998). These flaws are manifested, firstly, in poorly delineated and risky lending procedures. Failure to carry out proper accounting of risks and losses has distorted profit and asset calculations.

Secondly, the tight monetary policy of the last decade combined with high interest rates and economic recession to increase banks' losses on their lending portfolios. The instability that is a characteristic feature of the region's economies, taking the form of large fluctuations in their terms of trade, exchange rates and other variables, also played a part in lowering the quality of lending procedures, owing to frequent changes in risk and return levels (Hausmann and Gavin, 1995).

As has been mentioned, the immaturity of national financial systems, which is the result of low domestic saving rates, meant that the countries' ability to sterilize the monetary effects of external capital inflows was limited. Sharp declines in real exchange rates and the expansion of domestic spending resulted in current account deficits so large as to be almost unsustainable. The reversal of external capital flows triggered currency crises that led to steep currency depreciation, high interest rates and economic recessions which sharply altered the risk-return ratio of production activities, inflicting considerable portfolio losses on banks and leading to banking and —once again— currency crises.

(b) Financial crises in Latin America and the Caribbean in the 1990s

Thirteen of the region's countries were exposed to difficult financial situations during the decade, and in five cases these situations ended in banking crises (see table III.8). These situations were largely attributable to weaknesses in regulation and oversight, unbalanced and unstable macroeconomic environments and liberalization of the balance-of-payments capital account under unfavourable structural conditions. It is difficult to determine the relative importance of each of these factors in any particular crisis, however, as they often work in combination.

The countries that suffered banking crises were Venezuela in 1994, Argentina, Mexico and Paraguay in 1995, and Ecuador in 1999. The banking problems of Ecuador, Mexico, Paraguay and Venezuela dragged on for several years and their after-effects continue. Serious banking problems also emerged in Brazil and Colombia in 1994 and 1998, respectively. Several smaller countries (including Bolivia, Costa Rica, the Dominican Republic, Guyana, Haiti and Jamaica) also faced problems in this area, but were able to avoid systemic crises.

Table III.8
LATIN AMERICA AND THE CARIBBEAN: BANKING PROBLEMS IN THE 1990s

Country	Year of outbreak	Extent of problems	Losses or cost of rescue (as a percentage of GDP)
Argentina	1995	Bank crash. 45 of 205 institutions closed or merged.	
Bolivia	1994	Severe bank problems. Two banks holding 11% of total assets closed in 1994. Four of 15 banks, with 30% of total assets, undergoing severe portfolio problems in 1995. Isolated problems of insolvency in 1999.	
Brazil	1994	Severe bank problems. Of a total of 271 banks, 76 have been audited, placed under special conditions, merged or liquidated. Non-performing portfolio equal to 10% of real credit by the end of 1998.	8%-11%
Colombia	1998	Severe bank problems. Non-performing portfolio equal to 13% of deposits in 1999.	4%-5%
Costa Rica	1994	Severe bank problems. A large State bank closed in late 1994. Non-performing portfolio (after deducting reserves) of State commercial banks exceeded capital in 1995.	
Ecuador	1995	Bank crash in 1999, following major problems in 1995-1996. Eleven of 40 banks placed under government control between December 1998 and June 1999. Deposits frozen in March 1999. External audit of banks in April-July 1999.	10%-15%
Guyana	1993	Severe bank problems. Large public bank liquidated and merged. Portfolio castigated heavily by successor bank in 1993-1994.	7%
Haiti	1994	Severe bank problems. The political situation triggered a run on deposits in 1994, and since that date, a perception of financial instability remains.	
Jamaica	1994	Severe bank problems. An investment banking group closed in 1994. Support for a medium-sized bank in 1995.	
Mexico	1994	Bank crash. The non-performing portfolio rose to 12% in December 1995. Six banks with 17% of total assets audited in 1995. Extensive sales of portfolios to a bank fund (FOBAPROA). Banks with portfolio problems in 1999.	15-21%
Dominican Republic	1992	Severe bank problems. An estimated 5% or more of the total portfolio classed as non-performing. Three minor banks liquidated and the third-largest private bank, with 7% of all assets, audited in 1996.	
Paraguay	1995	Bank crash. Banks with around 10% of all deposits audited in 1995. Six national banks audited and deposits restored in 1996-1998.	8%
Venezuela	1994	Bank crash. 18 of 47 banks audited in 1994-1995. Symptoms of financial instability in banks in 1999.	17%-18%

Source: C. Goodhart and others, *Financial Regulation*, London, Routledge, appendix to chapter I, 1998; G. Caprio and D. Klingebiel, "Bank Insolvency: Bad Luck, Bad Policy or Bad Banking?", document presented at the Annual Conference on Development Economics of the World Bank, Washington, D.C., 1996; and Pedro Sáinz and Alfredo Calcagno, *La economía brasileña ante el Plan Real y su crisis*, Temas de coyuntura series, No. 4 (LC/L.1237-P), Santiago, Chile, 1999. United Nations publication, Sales No. S.99.II.G.13.

Argentina, Ecuador, Mexico and Paraguay recorded high capital inflows in the period 1992-1994, equivalent to 4.3%, 5.7%, 6.5% and 10.5% of output, respectively. As the monetary effects of these inflows were subject to only very limited sterilization, they generated a sharp rise in bank credit. The private sector credit to GDP ratio practically doubled between 1990-1991 and 1994-1995, increasing from 13% to 25% in Ecuador, from 17% to 30% in Mexico and from 13% to 22% in Paraguay (IMF, 1999).

The case of Brazil, whose banking system began to show signs of substantial problems in both the private and public sectors from 1994 onward, serves to demonstrate the benefits of preventive action. The Government's early and timely intervention in the financial system, when it restructured both public- and private-sector banks, made it possible to limit the effects of the currency crisis and prevent it spilling over into the banking system, by contrast with what happened in the Asian countries in 1997-1998 (Sáinz and Calcagno, 1999).

(c) The fiscal cost of rescue programmes

Three types of agents may absorb the losses incurred when a financial crisis is resolved: (i) the owners of the banks, up to the total worth of their respective shareholdings, the residual value of which is usually nil given the volume of losses when bank intervention occurs; (ii) depositors, whose funds may lose part of their real value either as a consequence of the effects of banking regulations, high inflation that erodes the value of their deposits, or the existence of negative real interest rates; and (iii) the public sector, when the financial system is in danger of lapsing into systemic crisis.

The resolution of financial crises in the region has not generally resulted in large nominal losses for depositors. Explicit or implicit State guarantees on deposits have made the public authorities responsible for restitution. In consequence, the bulk of the losses and of the subsequent costs of restructuring and bailing out banks and debtors have ultimately fallen on the public sector.

Public institutions may employ different types of programmes to enable banks and debtors to recover their ability to pay: emergency loans from the central bank, the purchase of non-performing and high-risk bank portfolios, loan rescheduling for debtors with payment problems, the provision of preferential exchange-rate facilities for debtors, and conversion of bank debt. Programmes such as these may generate losses for public institutions if the banks do not subsequently succeed in meeting their obligations or if the schemes involve subsidized interest or exchange rates. Losses met by public institutions ultimately translate into fiscal or quasi-fiscal costs, depending on whether the agency that absorbs them is the government treasury or the central bank.

The bank and debtor bail-out operations undertaken in the region in the 1990s generally involved a combination of several such programmes. The high fiscal or quasi-fiscal cost of dealing with the financial crises in the countries mentioned, which in a number of cases amounted to between 10% and 20% of national output, is indicative of the high rate of social profitability that can be achieved by policies designed to prevent such crises and by timely and effective restructuring measures.

(d) Prevention and management of financial crises

The wide range of factors which may cause banks and credit institutions to accumulate portfolio losses require different measures, the combination of which depends on the situation in each country.

These measures include, firstly, strengthening banking regulation and prudential oversight by applying standards designed primarily to ensure: (i) strict conditions of entry to the banking industry; (ii) rigorous management and oversight of credit, currency and other types of risk; (iii) accurate measurement of potential losses and the creation of adequate reserves; (iv) capital requirements that are higher than the minimum recommended by the Basel Committee on Banking Supervision; (v) matching of liquidity requirements to the term of liabilities, in both local and foreign currencies; (vi) complete transparency with respect both to risks and to assets and liabilities; (vii) establishment of clear conditions for timely intervention in banks or liquidation of failing institutions; (viii) oversight focused mainly on accurate risk assessment and timely provision of relevant information; and (ix) consolidated regulation and oversight of financial institutions that have affiliates or subsidiaries abroad.

Secondly, rapid measures to restructure failing banks have proven to be very important as a way of containing the spread of portfolio losses. This is because delays give rise to a widespread perception that large-scale bail-out measures are about to be taken, which leads banks to take on large portfolio risks.

Thirdly, even when banks are already facing major insolvency problems, it is possible to limit the cost of bank and debtor bail-out and restructuring schemes by deploying measures which comply with the following principles: (i) shareholder assets should be drawn upon, if necessary in their entirety (when the losses exceed the capital of the credit institution); (ii) debtors who have caused banking losses through questionable practices should be excluded from rescheduling programmes; (iii) public funds should be used to enable banks that are still operating, and likewise debtors, to recover their ability to pay as soon as possible (Rojas-Suárez and Weisbrod, 1995).

Fourthly, it is important to strengthen capital formation processes by means of policies which promote national saving and the development of financial markets, and to implement monetary and external capital policies that are compatible with the current-account deficit level deemed sustainable in the medium and long term (Zahler, 1992).

Chapter IV

Structure and performance of goods-producing sectors

Most of the literature available on the economic performance of the region's countries in the wake of external trade liberalization and the deregulation and privatization of production activities is of a macroeconomic cast. While this literature is valuable on its own terms, it does not identify or explain trends in specific production sectors or the behaviour of economic agents. Such an analysis would need to go beyond the impact of aggregate variables and consider mesoeconomic and microeconomic factors, including institutional and regulatory aspects. A strictly aggregate view cannot capture the heterogeneous nature of the different production sectors, agents and regions in each country.

It is beginning to be realized that, for all the unquestionable achievements of economic reform, total factor productivity has demonstrated unexpectedly slow growth, and large segments of the region's production structure have been left in deep disarray by market opening. There is a growing awareness that structural unemployment and informal jobs have increased substantially in most of the region's countries.

Today's development paradigm appears to be associated with flawed markets and information asymmetries among production agents, which means that access to the long-term capital and technological know-how needed to adapt to the new ground rules is distributed very unevenly. Responses to this situation have varied greatly in different parts of the production chain, resulting in unacceptable levels of exclusion in the move to modernize production.

Thus, as one segment of the production structure is modernized, new challenges arise and have to be dealt with if the full potential of the production base is to be tapped and weaknesses in its basic makeup compensated for. The system as a whole cannot become more competitive unless special efforts are made to improve technology, research and development, training, productivity, quality standards, environmental rules and infrastructure. Policies in all these areas need to provide for positive discrimination measures that will encourage struggling production units to improve their organization and performance. While an orderly macroeconomic environment is essential for this, it is now clear that the assumption that macroeconomic stability, liberalization and deregulation are all that is needed to meet these challenges underestimates the difficulties of modernizing production. It also ignores past experience in the industrialized world and in most emerging economies (Katz, 2000a).

The conceptual crux of this chapter is the premise that structural transformation is shaped by the interaction of evolving economic, technological and institutional forces that constantly feed back into one another on the macroeconomic, mesoeconomic and microeconomic levels. Every sector is subject to the impact not only of macroeconomic variables (exchange rates, interest rates, the level of economic activity and aggregate expenditure, the dynamic of international trade) but also of microeconomic factors (taxes, tariffs, subsidies, relative prices) and mesoeconomic influences (sectoral policies, the morphology and behaviour of specific markets, forms of market regulation and the strategies and organization of different business groupings). This combination of forces helps to explain why individual reactions to the incentives at work differ in the way they do, and thus why certain sectors, regions and companies forge ahead while others languish.

1. Trends by broad sectors of economic activity

(a) Sectoral structure and dynamics

In the last half century, the production structure in the countries of Latin America, by broad sectors, has developed along the same lines as it formerly did in countries that are now developed. The share of the primary sector in economic activity has declined, while that of manufacturing industry, after increasing up to a certain point, has stagnated. The share of the service sectors in the region's total output, meanwhile, has now increased to over half.

Developments in the region have departed somewhat from the typical pattern of transformation. Change has come about at different rates, and both agriculture and mining have tended to stabilize at output levels higher than those typical of developed countries, while manufacturing has settled at lower levels. Thus, for example, agriculture in Latin America currently accounts for around 7.5 % of total output, more than double the figure for agriculture in the United States. The share of manufacturing industry rose from 1950 to 1980, but never exceeded 24% of total output, while in developed countries the figure is typically in excess of 30%. The service sector began its growth phase at an earlier stage in the developed countries and was different in quality, being heavily weighted towards high-productivity services.

In the region, these developments have unfolded through a sequence of clearly identifiable stages. The first, which began at the end of the Second World War and lasted until 1973, was the industrialization stage. During the second, from 1973 to 1982, massive capital inflows allowed the earlier stage to continue, although at a slower pace, and some countries undertook macroeconomic and institutional reforms. The third stage was the crisis of the 1980s. The fourth was a time of moderate recovery in growth within a context of increasingly open trade, new price structures and domestic market liberalization.

It was during the first two stages, from 1950 to 1982, that the largest falls were seen in the output shares of agriculture (from 12% to 7%) and mining (from 3% to 2%), while the share of manufacturing industry increased (from 18% to 23%), mainly during the earlier stage. Two sectors that held steady were construction (9%) and services (about 55%). The relative decline of primary production during this period was due to growth rates that were lower than the average for other sectors (see table IV.1).

Developments in the recessionary stage that began in 1982 were dominated more by sectors whose dynamism fell sharply than by those that continued to grow at constant values. Growth fell across the board, but less drastically in agriculture and mining. Large parts of manufacturing and the construction sector, on the other hand, were hit hard by stagnating consumption and sharply falling investment and their share in total output fell by almost five percentage points, making them the worst affected sectors. The primary sectors recovered about one percentage point, while the service sectors posted the highest relative growth, increasing their share in the economy to nearly 60%. In both cases, however, this took place against a background of growth that was slow by 1950-1982 standards.

Table IV.1

LATIN AMERICA: OUTPUT SHARES AND GROWTH RATES AT CONSTANT 1995 PRICES, BY SECTOR OR INDUSTRY

(Percentages and average annual rates)

	Output share														Growth rate		
	1950	1960	1970	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	1950-1980	1980-1990	1990-1999
Agriculture, forestry, hunting and fishing	12.3	10.8	9.1	7.2	7.9	7.8	7.7	7.6	7.5	7.7	7.8	7.5	7.4	7.1	3.5	2.1	2.7
Mining and quarrying	3.0	3.6	3.3	2.1	2.4	2.5	2.4	2.4	2.4	2.6	2.7	2.8	2.8	3.1	4.1	2.7	4.8
Manufacturing	17.8	20.5	23.5	23.0	20.8	20.7	20.5	20.6	20.7	20.6	20.9	21.1	20.8	21.0	6.3	0.2	3.1
Electricity, gas, water and sanitation services	0.5	0.7	0.9	1.3	1.9	1.9	1.9	2.0	2.0	2.1	2.1	2.2	2.2	2.5	8.9	5.1	5.2
Construction	9.2	8.9	8.2	9.2	6.7	6.8	6.7	6.9	7.1	6.8	6.9	7.2	7.2	7.8	5.4	-1.9	3.9
Wholesale and retail trade, communications, hotels and restaurants	14.7	14.8	15.5	15.3	13.9	14.1	14.4	14.3	14.4	14.0	14.0	14.3	14.2	14.6	5.5	0.2	3.5
Transport, storage and communications	4.3	4.2	4.4	5.1	6.0	6.1	6.2	6.3	6.4	6.6	6.8	7.0	7.3	8.5	6.0	2.7	6.0
Financial, insurance, real estate and business services	15.7	15.2	14.3	15.3	16.7	16.8	16.8	16.7	17.2	17.2	16.6	16.4	16.6	16.3	5.3	2.1	1.9
Community, social and personal services	22.4	21.4	20.6	21.5	23.7	23.4	23.4	23.2	22.3	22.4	22.2	21.6	21.5	19.6	5.2	2.2	3.2
GDP [a]	100	100	100	100	100	100	100	100	100	100	100	100	100	100	5.2	1.8	3.5

Source: ECLAC, on the basis of official figures.

[a] Adjusted for banking services and import duties.

On the whole, the output shares of the main sectors changed very little in the 1990s, although mining and, to a lesser degree, construction recovered, while transport and communications gained ground in the service sector. All branches except mining grew more slowly than in 1950-1982, although the slowdown was fairly moderate in the case of transport and communications.

All these figures, however, are skewed by the performance of the largest countries in Latin America —Brazil and Mexico— which also showed certain opposing tendencies that are masked by the aggregate figures. For this reason, it is worth looking separately at different subregions and, particularly, isolating the effects produced by these two countries, as in table IV.2.

During the 1990s, the subregion that includes Central America, Panama, the Dominican Republic and Haiti saw the continuation of a trend that had begun in 1950, with agriculture declining significantly as a share of total output. Even so, this sector continues to account for a large portion of total GDP (16.6% in 1999), more than twice the average for Latin America. Other industries that gained in relative importance include construction, trade, hotels and restaurants and transport and communications, while the share of government and defence services fell off. These tendencies are consistent with the ending of war conditions in several countries of this group and with the rise of tourism in the Dominican Republic, which contributed to growth in construction and in trade, hotels and restaurants.

In the Southern Cone countries (Argentina, Chile, Paraguay and Uruguay), the GDP share of manufacturing fell again during the 1990s, so that by the end of the decade it accounted for four percentage points of output less than in 1980. This drop was particularly significant in Chile and Uruguay in the 1990s. Community, social and personal services declined most steeply in the subregion, especially in Argentina and Chile, owing mainly to falls in the share of government and social services. After hitting unprecedented lows in the 1980s, construction rebounded, while the share of financial and real estate services rose significantly.

The Andean Community subregion showed little movement during the 1990s. Agriculture and manufacturing fell back substantially in Colombia and moderately in all the other countries, while mining grew somewhat. Construction recovered after declining in the 1980s, and services experienced minor fluctuations. Of special note in this group of countries was the high output share accounted for by the primary sectors. Agriculture was particularly important in Bolivia, Colombia and Ecuador, while mining, including oil, accounted for a far higher output share than in Latin America as a whole.

Table IV.2
LATIN AMERICA AND THE CARIBBEAN (SELECTED SUBREGIONS AND COUNTRIES): OUTPUT SHARES AND GROWTH RATES AT CONSTANT 1995 PRICES, BY SECTOR OR INDUSTRY
(Percentages and average annual rates)

	Output share					Growth rate		
Subregion	1950	1980	1990	1994	1999	1950-1980	1980-1990	1990-1999
Central America [a]								
Agriculture, forestry, hunting and fishing	32.1	19.8	19.3	17.9	16.6	3.2	0.8	2.2
Mining and quarrying	1.7	1.5	1.2	1.1	1.1	4.3	-1.2	3.2
Manufacturing	12.0	16.4	15.3	15.1	15.5	5.9	0.4	3.8
Electricity, gas, water and sanitation services	0.3	1.6	2.2	2.1	2.4	10.4	4.3	4.7
Construction	2.8	4.7	3.9	4.6	5.9	6.7	-0.7	9.0
Trade, hotels and restaurants	19.6	20.8	18.7	19.8	19.7	5.1	0.0	4.8
Transport, storage and communications	3.1	6.4	7.2	7.6	8.6	7.5	2.2	6.2
Financial, insurance, real estate and business services	11.6	10.4	13.3	13.8	13.3	4.5	3.6	4.0
Community, social and personal services	16.8	18.3	18.9	18.1	16.8	5.1	1.4	2.6
GDP [d]	100.0	100.0	100.0	100.0	100.0	4.9	1.1	4.2
Southern Cone [b]								
Agriculture, forestry, hunting and fishing	7.1	5.4	6.9	5.9	6.2	2.2	2.2	4.0
Mining and quarrying	1.6	2.4	3.1	3.0	4.0	4.7	2.2	8.2
Manufacturing	19.5	22.9	20.9	20.6	19.0	3.7	-1.2	4.7
Electricity, gas, water and sanitation services	0.4	1.4	1.9	2.1	2.4	7.2	2.8	8.2
Construction	8.2	8.4	5.0	6.6	6.6	3.2	-5.3	9.6
Trade, hotels and restaurants	15.4	16.1	14.1	14.8	14.2	3.3	-1.6	6.1
Transport, storage and communications	4.7	4.3	5.4	5.7	6.4	2.9	2.0	8.0
Financial, insurance, real estate and business services	16.1	16.1	16.4	17.9	19.7	3.2	-0.1	7.8
Community, social and personal services	27.0	22.9	26.2	23.3	21.7	2.6	1.1	2.9
GDP [d]	100.0	100.0	100.0	100.0	100.0	3.3	-0.5	5.7
Andean Community [c]								
Agriculture, forestry, hunting and fishing	13.1	8.3	9.7	9.1	9.2	3.5	2.7	2.1
Mining and quarrying	13.7	6.3	7.3	7.4	7.9	2.4	2.6	5.0
Manufacturing	15.9	21.1	19.9	19.8	16.3	6.0	0.6	2.3
Electricity, gas, water and sanitation services	0.4	1.5	2.1	2.1	2.3	9.5	4.6	4.5
Construction	7.3	8.1	5.8	7.3	7.2	5.4	-2.1	6.2
Trade, hotels and restaurants	16.6	19.1	17.6	17.3	16.6	5.5	0.3	2.6
Transport, storage and communications	5.6	7.5	7.9	7.9	8.5	6.1	1.7	4.3
Financial, insurance, real estate and business services	11.2	11.5	12.8	13.1	14.5	5.1	2.2	4.5

(Continued)

Table IV.2 (concluded)

Subregion	Output share 1950	1980	1990	1994	1999	Growth rate 1950-1980	1980-1990	1990-1999
Community, social and personal services	16.2	16.6	16.9	15.9	16.1	5.1	1.3	2.7
GDP [d]	100.0	100.0	100.0	100.0	100.0	5.1	0.8	3.5
Brazil								
Agriculture, forestry, hunting and fishing	17.3	7.4	8.1	8.3	9.4	4.1	2.5	3.0
Mining and quarrying	0.2	0.5	0.8	0.8	1.0	9.7	6.8	3.8
Manufacturing	18.3	26.1	22.0	22.5	21.6	8.3	-0.2	2.0
Electricity, gas, water and sanitation services	0.8	1.4	2.2	2.4	2.8	9.1	6.0	5.1
Construction	16.6	12.4	9.4	8.9	9.1	6.0	-1.3	2.2
Trade, hotels and restaurants	9.0	8.4	7.6	7.9	8.2	6.8	0.5	2.9
Transport, storage and communications	1.3	2.4	3.7	4.3	5.3	9.2	6.0	6.5
Financial, insurance, real estate and business services	16.6	18.0	19.1	17.9	16.9	7.3	2.1	0.4
Community, social and personal services	19.8	23.4	27.1	27.0	25.8	7.7	3.0	1.5
GDP [d]	100.0	100.0	100.0	100.0	100.0	6.6	3.0	2.8
Mexico								
Agriculture, forestry, hunting and fishing	11.9	5.8	5.3	4.8	4.6	3.9	1.0	0.3
Mining and quarrying	1.2	1.6	1.7	1.6	1.5	7.3	2.8	2.4
Manufacturing	16.2	20.1	20.3	19.5	22.1	7.2	2.1	4.2
Electricity, gas, water and sanitation services	0.2	0.8	1.2	1.1	1.2	11.7	5.9	3.4
Construction	4.0	5.6	4.4	4.7	4.2	7.6	-0.5	2.3
Trade, hotels and restaurants	18.5	23.5	21.4	22.0	20.5	7.2	1.0	2.5
Transport, storage and communications	7.3	9.1	8.8	9.4	11.1	7.2	1.0	2.6
Financial, insurance, real estate and business services	18.6	13.0	16.0	18.6	16.2	7.2	1.7	5.4
Community, social and personal services	22.2	20.7	20.9	18.4	18.6	6.1	2.1	1.9
GDP [d]	100.0	100.0	100.0	100.0	100.0	6.3	2.8	3.1

Source**:** ECLAC, on the basis of official figures.

[a] Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, plus Dominican Republic, Haiti and Panama. [b] Argentina, Chile, Paraguay and Uruguay. [c] Bolivia, Colombia, Ecuador, Peru and Venezuela. [d] Adjusted for banking services and import duties.

In Brazil, the structure of the main sectors of economic activity remained very stable during the 1990s. The output shares of agriculture, manufacturing and construction stood unchanged throughout the decade, which means that manufacturing and construction failed to recover the ground they had lost in the 1980s. The overall share of services did not fall, but the composition of the sector changed somewhat as the weight of trade and of transport and communications increased. These shifting proportions reflect the impact of two forces: the Real Plan, which triggered a recovery in private consumption, and new investments in telecommunications. The output of the financial system plunged, however, owing to a combination of falling inflation and changes in relative prices.

Mexico is one of the few countries in the region where manufacturing significantly boosted its share of overall output. This greater vitality, which was seen mainly in the second half of the decade, can be attributed to the overwhelming impact of NAFTA, an expanding assembly industry, and the change in relative prices that followed devaluation in late 1994. Conversely, there was a fall in the share of trade and financial services, which had earlier been buoyed up by capital inflows and consumer credit growth. As in other countries, the transport and communications industry also increased its share.

In the Southern Cone, all sectors expanded faster in the 1990s than in the previous four decades. In the other countries and subregions, however, the overall pattern was one of lower growth rates. The only exceptions were Central America, where growth was faster in construction and, to a lesser degree, in trade, hotels and restaurants, and the Andean Community, where growth in both mining and construction increased.

(b) The shifting roles of different economic agents

The restructuring of production in the different sectors has been led by three major categories of firms: subsidiaries of transnational corporations, large local conglomerates and locally owned small and medium-sized enterprises. During the recent structural adjustment process, these groups displayed large differences in terms of behaviour and of access to information and factor markets. As the principle of State subsidiarity came to be applied, and particularly as privatization advanced, the role of State-owned companies as suppliers of goods and services diminished greatly. The vacuum left behind by the retreating State was filled by large private companies, especially transnationals.

To illustrate the overall situation, table IV.3 gives figures for the region’s 500 largest companies in the 1990s. The sectoral trends outlined above are clearly reflected in this group since, in terms of sales, the manufacturing sector still predominates, accounting for about 40% of the total. The greatest changes over the decade were in the sales of the primary sector, which slumped from 27.7% to 22% of the total, and in those of the services sector, which expanded from 30% to 37.6%, putting it almost on a par with manufacturing. This relative growth was mainly driven by the privatization of a number of State-owned telecommunications and electricity firms (see chapter V).

Table IV.3
LATIN AMERICA AND THE CARIBBEAN: THE 500 LARGEST COMPANIES, 1990-1992, 1994-1996 AND 1998-2000[a]
(Millions of dollars and percentages)

	1990-1992	1994-1996	1998-2000
1. Number of companies	500	500	500
Foreign	149	156	231
Local private-sector	264	280	231
State-owned	87	64	38
2. Sales (millions of dollars)	361 009	601 794	686 776
Foreign	99 028	193 335	285 627
Local private-sector	142 250	246 700	259 784
State-owned	119 731	161 759	141 365
Distribution by ownership (%)	100.0	100.0	100.0
Foreign	27.4	32.1	41.6
Local private-sector	39.4	41.0	37.8
State-owned	33.2	26.9	20.6
3. Sectors (millions of dollars)	361 009	601 794	686 776
Primary sector[b]	100 058	143 540	150 812
Manufacturing	153 001	259 942	277 893
Services	107 950	196 313	258 072
Distribution by sector (%)	100.0	100.0	100.0
Primary sector	27.7	23.9	22.0
Manufacturing	42.4	43.2	40.4
Services	29.9	33.0	37.6

Source: ECLAC, Information Centre of the Unit on Investment and Corporate Strategies, Division of Production, Productivity and Management, on the basis of information supplied by the research department of *América economía* magazine for the periods 1990-1992 and 1994-1996, and information published in the magazines *La nota*, April 2000; *Gestión*, June 2000; *Mercado*, July 2000; *América economía*, 27 July 2000; *Expansión*, 19 July 2000; *Gazeta mercantil*, October 2000; *Expansión*, 25 July 2001; *Mercado*, July 2001; *América economía*, 30 August 2001; and *Gazeta mercantil*, November 2001.

[a] The figures are three-year averages.
[b] Oil companies are included in the primary sector.

As regards the different types of companies, the table shows that subsidiaries of transnational enterprises expanded their role, especially in the second half of the 1990s, when their numbers rose from 156 to 231, while the sales of these companies swelled from 27.4% of the total in 1990-1992 to 41.6% in 1998-2000. Conversely, the number of State enterprises shrank from 87 in 1990-1992 to 38 in 1998-2000, and their share of total sales also declined sharply, from 33.2% to 20.6%. The number of locally owned private-sector companies remained stable at around 260, accounting for 40% of total sales. Clearly, one of the consequences of globalization and adjustment was that subsidiaries of transnational enterprises improved their position while State-owned companies lost ground, especially in the closing years of the decade. The increasing strength of transnationals is even more evident in the export figures, since the external sales of their subsidiaries rose from 30.6% of the total for the 200 largest exporters in 1995 to 43.7% in 2000.

Locally owned small and medium-sized enterprises stand at the other end of the production scale. Here, the situation varies by sector and country. In general, large numbers of agricultural and mining businesses disappeared during the period under study, and in certain countries the same also occurred in manufacturing. The owners and employees of these businesses joined the ranks of informal workers, especially in the service sector in urban areas (see chapter VI). Events elsewhere in the world (especially East Asia) strongly suggest that in several of the region's countries this business failure rate was higher than would have been expected in a normal process of structural adjustment to meet new conditions of competition.

2. The agriculture and forestry sector

(a) Ongoing transformations and the impact of the reforms

As a result of the economic reforms introduced, agricultural activities underwent major changes in their structure, productivity, competitiveness and relative profitability. At the same time, the sector became even more heterogeneous. With competition conditions changing profoundly in the sector, new entrants came to the fore even as traditional enterprises withdrew. Economic liberalization, market deregulation and reform or abolition of public institutions in the agricultural sector all had their own specific effects on input and product prices, on the availability of services and resources and, most particularly, on the different types of producers (David and Morales, undated).

In a number of cases, these effects merely hastened transformations that had already been taking shape for a decade or more. Examples include changes in the product and export mix and the repercussions of new technology, such as higher yields, decreases in the amount of land under cultivation, the allocation of larger areas to livestock and forestry and a general decline in employment levels.

The changes that took place in the agricultural sector in the 1990s can be attributed largely to certain features of macroeconomic policy and market opening. For example, most local currencies appreciated steadily, and this combined with lower tariffs to bring down import prices both for machinery and inputs and for agricultural and agroindustrial goods, giving rise to what was often predatory competition. The result was that modern, well capitalized sectors introduced technical innovations and stepped up mechanization, developing more intensive agriculture. Meanwhile, small-scale producers were unable to increase the amount of land they had under cultivation, or even had to reduce it, as their sources of credit dried up and their output, consisting mostly of traditional crops, struggled to compete with imports. As occurred in other production sectors, the responses of different agents to economic signals and the institutional changes that affected them were highly asymmetrical.

Decisions in Latin American agriculture are made by some 3 million owners or employers and some 15 million own-account workers, over half of whom are poor (Dirven, 1997). In all the countries in the region, adults over 40 years of age, who are usually the ones making the decisions, are consistently found to have had less than six years of education. This is important because complex decisions have to be made about what to produce, what technology to use and what marketing approach to follow in a fast-changing world. Clearly, business skills are weak across a large segment of this production sector, especially by comparison with other producers and marketing firms that have access to a sophisticated network of technical and professional advisers to support them in their decision-making.[1]

At the same time, many of the institutions that used to support small and medium-sized producers have disappeared or are undergoing profound transformation. This is the case with public agricultural research institutions, which played a critical role in the past, but whose responsibilities have steadily been transferred to the private sector. Examples of these responsibilities include agricultural advisory functions and research and development work with seeds, agrochemicals and cultivation and production methods.[2]

The geographical distribution of production within each country has also changed over time, as dictated by the natural comparative advantages of individual regions. As a result, developed regions have become more starkly differentiated from those that have fallen behind. Levels of inequality, poverty and indigence remain unacceptably high in rural areas. Profound demographic changes (rural-urban migration, an

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1 OECD considers that the combination of skills called for in the agricultural sector, and sometimes in the specific region where the farm is located (the agronomic know-how and understanding of market operations needed to decide what to produce and what technology to use), requires at least as many qualifications as any other kind of business (cost accounting, investment analysis, financial planning). Contrary to what is often supposed, agriculture should therefore be regarded as a sector with high human capital requirements (OECD, 1994).

2 Research and consultancy programmes for less commercial crops, which usually benefited smaller (and generally poorer) producers, have also been cut back or discontinued.

ageing rural population, declining birth and death rates) have been compounded by the high concentration of income and assets, especially land, which continues to be a distinctive feature of the region despite policies to counteract it. In some countries, concentration may have become even more acute during the 1990s. The most recent agricultural census figures in Brazil, Chile and Uruguay, as well as other studies in Argentina, Bolivia and Mexico, reveal a decline in the number of small farms.

A variety of other new challenges, associated with the biotechnology revolution, the millennium round of trade negotiations, long-term financing and job creation, have started to come to light in the sector. The effect of these developments on growth and equity will depend on the new regulatory framework that is put in place to fill the gap left by the reduction in the direct role of the State and of institutions equipped to generate public goods. Another highly visible feature of the restructuring that rural organization is now undergoing is the growing influence of large multinational agrochemical and seed producers. These producers of basic inputs are increasingly influential in determining the subcontracting procedures and production practices (soil preparation, planting and harvesting) of many primary farmers.

In the region, some of these processes have triggered equally significant changes in the structure of capital in the sector, as a result of significant expansion in foreign agrifood investments. Six of the 100 largest transnational companies in Latin America (by consolidated sales) are in the tobacco and food industry.[3] In Brazil, for example, the number of mergers and acquisitions was six times as high between 1992 and 1997 as in previous years, and this process was led by the food, beverage and tobacco industries, which together accounted for 13% of the total. The most important factors underlying these developments include market saturation in developed countries, the growing power of distribution chains, the need to cut costs, an increased tendency for businesses to target regional markets, and the strategies used to enter these markets.[4] In Chile, total agroindustrial investment rose from 9.5% of output in the 1970s to 15.7% in 1995-1997. Official incentives for foreign investment were one of the key factors driving this increase.

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[3] The largest is British American Tobacco, a tobacco company, followed by Unilever, Cargill, Parmalat, Dreyfus & Co. and Danone.

[4] The largest horizontal mergers involved Fiorlat, Teixeira, Alimba, Via Láctea, Lacesa, Sodilac, Cilpe, Ouro Preto Betânia and Batávia. The main vertical mergers involved Gogo, Mococa, Spam, Betânia and Batávia and the main concentric ones Supremo, Santa Helena and General Biscuits. In the case of conglomerate mergers, mention should be made of Bolls, Etti and Neugebauer (National Bank for Economic and Social Development, 1999).

(b) The restructuring of production

A shifting competitive environment, technological change in the sector and demand and price movements on the world market are all factors that help to explain the divergent trends seen in different agricultural activities, the overall decline in the amount of land under cultivation, and the asymmetrical appropriation of benefits. The situation differs from one country to another, depending on the share of agricultural products in total national output and the extent to which production is stimulated by domestic and external demand. As table IV.4 shows, the annual average growth rate in the sector was 3.5% in the 1970s, 2.1% in the 1980s and 2.6% in the 1990s. If these figures for agriculture are compared with overall output growth, it transpires that the sector is a relatively inert one. While the slowdown of the 1980s was less acute in agriculture than in other sectors, the recovery of the 1990s was also slower. In any case, in the 1990s, the agricultural sector —like the economy as a whole— did not return to the growth rates of the 1970s and earlier decades. Not only was growth slower overall, but annual growth rates were highly volatile.

Naturally, this region-wide pattern masks great differences among countries. If the dividing line is taken to be an average rate of 3.5% as was seen in the 1970s, in the 1990s this was exceeded by just four countries. Only two of these, Chile and Costa Rica, had performed at a positive level in the 1970s. The other two (Nicaragua and Peru) moved from a situation of negative growth in the 1970s to one of high dynamism in the 1990s. In other words, agricultural sector activity in this subgroup increased during the reform stage. By contrast, twelve other countries moved in the opposite direction, becoming less vigorous than before: Bolivia, Brazil, Colombia, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Paraguay, the Dominican Republic and Venezuela (Ocampo, 2000).

The most dynamic activities in the 1990s were those linked to modern agroindustrial chains and external markets, especially in the case of small countries, and to both domestic and external markets in the case of larger countries. Another factor contributing to differences in national performance was the composition of sectoral production, as different areas did not behave alike. As table IV.5 shows, many of these structural changes in the sector have unfolded gradually over the long term, and thus predate market opening.

Table IV.4
LATIN AMERICA AND THE CARIBBEAN (19 COUNTRIES): GROWTH IN AGRICULTURE, FORESTRY, HUNTING AND FISHING
(Average annual rates)

	1970-1980	1980-1990	1990-2000
Argentina	2.1	1.6	2.6
Bolivia	4.1	1.9	3.0
Brazil	4.7	2.5	3.0
Chile	2.2	5.7	4.5
Colombia	4.4	3.0	1.5
Costa Rica	2.6	3.1	4.1
Ecuador	3.0	4.2	1.4
El Salvador	2.4	-1.4	1.4
Guatemala	4.7	1.3	2.8
Haiti	1.5	-0.2	-2.9
Honduras	2.7	2.7	2.3
Mexico	3.4	1.1	1.9
Nicaragua	-0.1	-0.7	5.1
Panama	1.3	2.5	1.9
Paraguay	6.7	4.0	1.7
Peru	-0.6	2.2	6.0
Dominican Republic	3.4	0.4	0.4
Uruguay	0.6	0.2	2.2
Venezuela	2.9	2.0	1.1
Latin America	3.5	2.1	2.6

Source: ECLAC, on the basis of data from the Statistics and Economic Projections Division.

The greatest progress in increasing and diversifying agricultural production and exports was made with oil crops, fruit and vegetables. Argentina, Bolivia, Brazil and Paraguay led the way with increased soya production, and Costa Rica, Guatemala and Honduras with African palm. Fruit and vegetable production increased most in Argentina, Brazil, Chile, Costa Rica and Mexico. Cereals and sugar cane flourished until the first half of the 1980s, after which growth slowed, only to pick up again somewhat in the late 1990s. Root and tuber production has been generally stagnant over the last quarter of a century, and the same is true of coffee since the mid-1980s. Naturally, production trends were not identical in all countries for all products, and even some with similar characteristics displayed dissimilar patterns.

Table IV.5
LATIN AMERICA AND THE CARIBBEAN: AGRICULTURAL OUTPUT GROWTH

(i) Index multiples (1970-1975=100)

	1970-1975	1975-1980	1980-1985	1985-1990	1990-1995	1995-1999
Cereals	100	114	137	143	152	176
Livestock	100	127	149	163	196	242
Oil crops	100	189	262	336	398	501
Roots and tubers	100	96	93	98	99	105
Vegetables	100	120	140	164	182	211
Fruit	100	116	135	156	181	202
Green coffee	100	102	129	136	133	129
Sugar cane	100	120	149	174	178	197

(ii) Average annual growth rates

	1975-1980/ 1970-1975	1980-1985/ 1975-1980	1985-1990/ 1980-1985	1990-1995/ 1985-1990	1995-1999/ 1990-1995
Cereals	2.7	3.8	0.8	1.2	3.3
Livestock	5.0	3.1	1.8	3.8	4.8
Oil crops	12.0	4.7	3.7	0.9	2.7
Roots and tubers	-0.8	-0.5	1.0	0.1	1.3
Vegetables	3.7	3.2	3.2	2.2	3.3
Fruit	3.0	3.1	3.0	2.9	2.5
Green coffee	0.3	4.8	1.1	-0.4	-0.7
Sugar cane	3.7	4.5	3.1	0.5	2.3

Source**:** ECLAC on the basis of data from the United Nations Food and Agriculture Organization (FAO).

In a number of countries, livestock production grew at such a rate that it even outstripped the expansion of farm crops. Meanwhile, the greatest strides in forestry production were made in the countries of the Southern Cone and Mexico, owing to special incentives and natural comparative advantages. The expansion of this subsector was reflected in the region’s exports of forestry products. As can be seen in table IV.6, the subsector’s external sales in constant prices have multiplied more than seven fold over the past 30 years. Brazil, the main exporter, continued to account for about 50% of these exports throughout the period. The share of Chile began to increase in the early 1970s, and has ranged between 25% and 33% since the middle of that decade. Argentina and Mexico, which began in 1970 with a very small share of the region’s forestry exports, achieved the highest growth rates during this period, with Mexico eventually contributing 5.1% of the total and Argentina 4.2%. The rest of the countries moved in the opposite direction; their share of regional forestry exports, although still significant, fell by three fourths from 1970 to 1999.

Table IV.6
LATIN AMERICA AND THE CARIBBEAN: STRUCTURE AND GROWTH PERFORMANCE OF FORESTRY EXPORTS
(Index multiples and percentages)

	1970	1975	1980	1985	1990	1995	1999
	Growth (index 1970=100)						
Argentina	100.0	150.3	263.5	786.7	2 483.3	3 701.2	3 238.9
Brazil	100.0	72.9	198.9	219.5	296.0	619.7	746.4
Chile	100.0	149.1	297.6	274.5	456.2	1 167.1	1 572.3
Mexico	100.0	50.4	62.9	62.5	490.9	933.4	1 100.4
All other countries	100.0	112.7	105.0	106.7	69.3	208.9	93.7
Latin America and the Caribbean	100.0	97.5	186.3	196.8	282.8	634.0	749.8
	Structure (percentages)						
Argentina	0.7	1.1	1.0	2.9	6.3	4.2	4.2
Brazil	50.3	37.6	53.6	56.0	52.6	49.1	54.1
Chile	17.8	27.3	28.5	24.9	28.8	32.8	30.8
Mexico	3.1	1.6	1.1	1.0	5.4	4.6	5.1
All other countries	28.1	32.4	15.8	15.2	6.9	9.2	5.8
Latin America and the Caribbean	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source**:** ECLAC, on the basis of data from the United Nations Food and Agriculture Organization (FAO).

Traditional commodities were also affected by low international prices, as table IV.7 shows. This resulted both from oversupply of many commodities, to which simultaneous liberalization by a number of developing countries contributed, and from distortions in international agricultural markets caused mainly by protectionism and subsidies in industrialized countries, which successive rounds of trade negotiations have done very little to correct (Ocampo and Perry, 1995). This downward movement in international prices, especially for cotton, sugar, coffee, wood pulp and wheat, was a blow to the region’s major exporting countries. The difficulties of some of them can be explained by their heavy reliance on these traditional products. In marked contrast, the external trade growth of the most successful countries was built on non-traditional, higher-priced products for which demand was rising.

Table IV.7
REAL PRICE INDICES FOR SELECTED COMMODITIES
(1995=100)

Commodity	1980	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Cotton	90.2	77.6	73.8	59.2	59.6	78.7	100.0	85.4	78.2	71.9	53.4
Sugar	216.1	94.5	67.5	68.3	75.5	90.2	100.0	90.1	85.6	67.5	47.2
Bananas	85.3	118.3	128.7	107.8	100.4	99.9	100.0	107.5	112.1	108.6	97.8
Coffee	112.9	61.0	56.8	43.1	47.9	99.3	100.0	82.9	125.6	90.2	73.5
Beef	145.5	133.4	139.7	128.7	137.3	122.3	100.0	93.6	97.3	90.5	96.1
Maize	145.4	87.9	87.4	82.9	83.3	86.6	100.0	125.0	93.4	80.8	76.4
Wood pulp	62.8	95.5	70.0	66.0	49.7	64.9	100.0	67.3	65.3	48.3	46.0
Vegetable oil products [a]	116.8	94.9	92.8	93.2	98.4	98.3	100.0	119.7	122.1	92.7	76.5
Wheat	98.4	76.5	72.2	84.2	79.4	84.4	100.0	116.3	90.1	72.2	64.3

Source: ECLAC, on the basis of official figures.

[a] Includes oilseeds, oil and meal.

(c) Changes in labour productivity

If rural and urban living standards are ever to become more equal, one essential requirement will be for agricultural and non-agricultural productivity levels to converge. Such convergence, however, may be the result either of positive factors (narrowing of the technology gap) or of negative ones (more informal employment in urban areas due to immigration from the countryside).[5]

Since the 1960s, labour productivity in the region has grown faster in the agricultural sector than in non-agricultural activities. Agricultural labour was only 19% as productive as non-agricultural labour in 1970, but the figure had risen to 47% by 2000. This progress, however, stemmed from both the positive and negative factors described above. Positive factors held sway in the 1970s, but a further narrowing of the productivity gap in the 1980s resulted from non-agricultural productivity declining in absolute terms, something that in turn reflected significant growth in the urban informal economy.

In the 1990s, agricultural productivity grew substantially in several countries as technological innovations were adopted and input prices fell. These improvements took place in the most modern and best capitalized operations, which occupy the best land, and their effects were largely confined to the most dynamic products. This overall rise also reflected the

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[5] This section is based on Ocampo (2000).

disappearance of many small farms, which normally had very low productivity.

If agricultural output per economically active person is taken as an indicator of labour productivity, productivity in the sector grew at an average annual rate of 2.4% from 1990 to 2000, to reach US$ 3,866 at 1990 prices.[6] Average labour productivity in the non-agricultural sectors of the region's countries, while considerably higher (US$ 8,278 in 2000), grew at an annual rate of -0.02% during this period. In the great majority of cases, productivity grew faster on the agricultural sector than in the rest of the economy.

In combination with changes in the composition of sectoral output and a relatively stable agricultural frontier, this increase in labour productivity led to employment falling in the sector. The expansion of livestock and forestry activities at the expense of more labour-intensive production reduced employment, while growth in horticulture and poultry rearing had the opposite effect. The figures available show that the net result was a decline in the demand for labour in rural areas.

Table IV.8 ranks countries according to the relative labour productivity of their agricultural and non-agricultural sectors, by comparison with regional averages in 2000. Most of the countries followed a pattern that could be considered normal, with productivity figures that were clearly consistent for the entire economy: either agricultural and non-agricultural productivity figures were both above the respective regional averages, or both were below. Six countries exceeded the regional averages on both counts, while 12 fell short. In five countries, however, agricultural and non-agricultural productivity were on different sides of the respective averages. In three (Panama, Mexico and Trinidad and Tobago) non-agricultural productivity rose by more than the regional average but agricultural productivity by less, while in the other two countries (Guyana and Venezuela) the opposite occurred.

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6 These figures were calculated from official FAO data on the economically active population and ECLAC information on agricultural sector output.

Table IV.8

LATIN AMERICA AND THE CARIBBEAN (23 COUNTRIES): RANKING BY AGRICULTURAL AND NON-AGRICULTURAL LABOUR PRODUCTIVITY

	Non-agricultural productivity below regional average of US$ 8 278/EAP in 2000					Non-agricultural productivity above regional average of US$ 8 278/EAP in 2000				
	Annual productivity growth from 1990 to 2000 and productivity in 2000					Annual productivity growth from 1990 to 2000 and productivity in 2000				
		Agricultural		Non- agricultural			Agricultural		Non- agricultural	
		%	US$	%	US$		%	US$	%	US$
Agricultural productivity above regional average of US$ 3 866/ EAP in 2000	Guyana	10.2	4 946	2.5	1 142	Barbados	3.0	16 667	-0.7	12 663
	Venezuela	2.0	4 846	-1.1	7 815	Argentina	2.8	9 311	1.8	18 978
						Uruguay	2.4	7 842	1.8	13 832
						Chile	4.1	5 340	3.5	14 436
						Costa Rica	3.2	5 262	0.8	10 067
						Brazil	4.5	4 620	0.0	10 316
Agricultural productivity below regional average of US$ 3 866/ EAP in 2000	Colombia	1.4	3 658	-0.7	5 737	Panama	2.2	2 742	1.3	9 140
	Dominican Republic	5.6	3 163	2.0	5 091	Mexico	1.3	2 274	-0.6	14 261
	Paraguay	-0.1	3 062	-1.9	4 661	Trinidad and Tobago	1.2	1 976	0.7	12 354
	Nicaragua	5.0	2 221	-2.1	988					
	Peru	4.0	1 914	0.2	8 132					
	Guatemala	0.8	1 879	0.2	6 337					
	El Salvador	0.1	1 684	0.4	5 046					
	Ecuador	0.7	1 659	-2.4	4 304					
	Jamaica	2.4	1 602	-1.4	4 603					
	Honduras	1.3	1 129	-1.7	2 279					
	Bolivia	0.9	752	0.7	3 589					
	Haiti	-3.8	377	-3.6	1 625					

Source: Annual cumulative growth rates, ECLAC, data from the United Nations Food and Agriculture Organization (FAO) for the economically active population (EAP).

A look at changes from 1990 to 2000 shows that the greatest increases in productivity, both on and off the agricultural sector, were generally achieved by the very countries where productivity was already relatively high. As a result, the region shows a divergent pattern of labour productivity. In countries with higher productivity (Argentina, Brazil, Chile, Costa Rica and Uruguay), changes in the relationship between the rural and urban economies were dominated by positive factors associated with genuine convergence in technology levels and living standards. The main exception, owing to peculiarities in their production structures, is Barbados. The opposite is true of lower-productivity countries, where convergence was largely due to a quite widespread decline in non-agricultural labour productivity resulting from the spread of informal working in the cities (Colombia, Ecuador, Haiti, Honduras, Jamaica, Nicaragua and Paraguay).

(d) The economic and social influence of land concentration

Latin America and the Caribbean have a history of highly concentrated land ownership and tenure. By contrast with other regions of the world, this issue is still actively on the agenda in most of the countries, despite agrarian reform programmes undertaken in the 1960s and early 1970s. The fact is that the sectors affected by these programmes put up such strong resistance that they eventually succeeded in neutralizing and even reversing them. With the exceptions of Brazil, Colombia, Costa Rica and, more recently, Venezuela, there are currently no initiatives to redistribute land. In the 1990s, large expanses of land remained unproductive even as highly unequal structures of land distribution persisted, a situation that is incompatible with the objectives of equity and efficiency implicit in sustainable development.

The indices of land concentration given in table IV.9 allow three groups of countries to be distinguished. In the first group, comprising Chile, Mexico and Paraguay, indices are above 0.9, reflecting very high levels of concentration. At between 0.8 and 0.9, the index values for Argentina, Brazil, Costa Rica, Ecuador, El Salvador, Panama, Peru and Venezuela are also high. The third group comprises Colombia, the Dominican Republic, Puerto Rico and Uruguay, with index values of between 0.7 and 0.8, and Honduras, where the value has ranged from 0.6 to 0.7.

Concentration of land ownership is a matter of concern both to governments and to a variety of civil society organizations. In the 1990s, several countries in the region experienced intensified activity by social movements of landless farm labourers, in some cases culminating in farm takeovers. Governments have adopted a range of policies to tackle this problem. Some have emphasized market mechanisms to bring about changes in ownership and have implemented policies based on carrying out land surveys, updating existing ones, registering land and issuing titles. In other cases, including Brazil, agrarian reform policies have been combined with the acquisition of land on the market.

It would be premature to evaluate the Brazilian financing programme for land purchases (known as the *Cédula da Terra* or land certification project) because it was implemented only recently. The interest rate on programme credits, however, is already being criticized for being incompatible with the goal of making agriculture profitable. Studies now under way confirm the need for supplementary investments to provide access to the technology needed if the land acquired is to be farmed successfully.[7]

Table IV.9
LATIN AMERICA AND THE CARIBBEAN (16 COUNTRIES): INDICES OF LAND CONCENTRATION, 1969-1997 [a]
(Gini Index values)

	1970s	1980s	1990s
Argentina	…	0.83 (1988)	…
Brazil	0.84 (1970)	0.85 (1985)	0.81 (1996)
Chile	0.92 (1975)	...	0.92 (1997)
Colombia	0.86 (1971)	0.79 (1988)	0.79 (1997)
Costa Rica	0.81 (1973)	0.80 (1984)	...
Ecuador	0.81 (1974)	...	...
El Salvador	0.80 (1971)	…	...
Honduras	0.71 (1974)	...	0.66 (1993)
Mexico	0.93 (1970)	...	...
Panama	0.77 (1971)	0.83 (1980)	0.85 (1990)
Paraguay	...	0.93 (1981)	0.93 (1991)
Peru	0.88 (1972)	…	0.86 (1994)
Puerto Rico	0.76 (1970)	0.77 (1987)	...
Dominican Republic	0.78 (1970)	0.73 (1981)	...
Uruguay	0.81 (1970)	0.80 (1980)	0.76 (1990)
Venezuela	0.90 (1970)	0.89 (1985)	...

Source**:** ECLAC, on the basis of agricultural census and surveys.

[a] Calculated using the methodology developed in Beatriz David and others, “Demandas por políticas de desenvolvimiento rural no Brasil”, Encontro Nacional de Economía, Belém do Pará, December 1999. The index goes from 0 to 1; the higher the value, the greater the inequality.

Colombia’s Law 160, enacted in 1994, created a subsidy for direct land purchases as a way of promoting access to land by campesino farmers (Ocampo and Perry, 1995 and Vargas, 2000). This law emphasizes direct land negotiations between landlords and campesinos. The initiative has failed to match up to expectations, however, largely because the availability of subsidies has pushed up land prices and, in some cases, fuelled speculation. This process coexisted with the more traditional approach of giving settlers land grants in outlying areas.

In Costa Rica, the agrarian reform process begun in 1962 had a significant impact on the structure of land tenure and ownership. The first main thrust of reform was to settle large areas of land. This was followed by land acquisition and distribution, the issuing of titles and measures to

[7] See, in particular, Dias (2000) and Rodríguez (2000).

support the consolidation of campesino settlements. It is estimated that almost two million hectares, over one third of the nation's land, were redistributed under these programmes.

The Agrarian Reform in El Salvador, together with the Land Transfer Programme deriving from the Peace Agreements, brought about major changes in land allocation. From 1980 to 1995, these programmes were generously funded, although the results failed to live up to the original social and economic goals and objectives. The structure of tenure is now such that 75.1% of land is in the possession of landowners, 18.4% is rented and the remaining 6.5% is held on some other basis. The characteristics of the sector, the fragmentation of properties and the low level of agricultural technology have depressed farm income and profitability. Farmers frequently seek wage employment as rural labourers to supplement their income. The stubbornly low levels of technology employed can be attributed to the lack of training programmes and the dearth of resources for supplementary investments.[8]

In Mexico, the Constitutional Reform of 1991 made it legal to sell and trade in agrarian rights, practices that already existed informally. The reforms abolished the power of communities to dispose of land and water rights and legalized the sale, rental and share-cropping of communal lands (*ejidos*). The policy was implemented through the Procede programme (Programme for the Certification of Agrarian Rights and the Allocation of Titles to Urban Sites) set up in 1993. By 1999, over 60% of *ejido* land had been certified, although the certification rate varied considerably among regions and the transmission of succession rights is still very common. While the new agrarian laws did not spark massive land sales, indirect transactions such as rental arrangements were revitalized. *Ejido* farmers were thus able to make more flexible use of their assets.

The experience of the 1990s has clearly revealed that there are major obstacles to a market-based system of land transactions, including imperfect credit markets and limitations on the fiscal resources that can be made available for subsidy programmes that sometimes cover up to 75% of the purchase price. This is compounded by the lack of an expeditious, functional and reliable land survey and registry system capable of providing users with the financial and legal information they need to participate in the market (Tejada and Peralta, 1999).

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8 Based on data from surveys conducted under the ECLAC FRG/97/S70 project "Policy options to promote the development of agricultural land markets with a view to facilitating land transfer to small farmers".

It has also been shown, though, that the difficulties of using market operations as a mechanism for land allocation do not stem solely from the shortcomings of the financial system or the inadequacy of cadastral information. Land is fundamentally different from other assets in that it serves simultaneously as a store of value, a fixed asset and a factor of production. This is why the land market, as a general rule, is very imperfect and segmented and involves high transaction costs (Muñoz, 1999).

3. The mining sector

In the 1990s, the latent potential of the mining sector was developed at an exceptional pace. Alongside changes in oil and gas activities (see chapter V), most countries in the region undertook reforms aimed at bringing new deposits into production more quickly and thus boosting and diversifying exports in the mining sector. While these reforms generally confirmed the State in its inalienable and imprescriptible ownership of these resources, the implementation of a variety of programmes to stimulate private investment curtailed the State's commercial role and reduced tax revenues from mining activities. The essential developments in the 1990s were the removal of barriers to the entry of private investment, the application of consistent policies regardless of the origin of capital or the scale of mining operations, and the privatization of a number of public companies in the sector.[9]

(a) Direction and substance of reforms

Although reforms were not always adopted systematically or simultaneously by the countries, they usually entailed the following measures: increasing information and knowledge about mining potential; upgrading the technical capabilities of public institutions in the mining sector; strengthening the legal status of mining rights and modernizing the administration of these; and providing specific investment incentives, which meant that economic policy instruments ceased to be neutral.

Reforms were based on the assumption that, given the technological progress made since the 1970s, technical advances needed to be introduced and disseminated if the mining industry were to develop, something that required more private investment, especially from abroad. Foreign companies were looking for opportunities to exploit competitive advantages, especially in the cases of copper and gold, the

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9 This section is based on Sánchez Albavera and others (1999).

two products that attracted the largest investments. Choices between investment opportunities in different regions were mainly determined by operating costs. Thus, economic policies helped to develop a sector in which international prices were an important consideration. Once mining rights had been placed on a sounder legal footing, the administration of these rights had been modernized and entry barriers had been removed, the orientation of macroeconomic reforms became a key factor in investment decisions.

From this perspective, the reforms with the greatest impact were the ones that influenced costs, commercial and financial management and the distribution of profits. The main measures affecting costs were the reduction of tariff protection levels, the introduction of drawback mechanisms for taxes paid during the production process, the reduction or abolition of royalties, licence fees and other indirect taxes, and the abolition of specific taxes or discriminatory fees on the use of infrastructure (energy, ports, etc.). Reforms affecting commercial and financial management included the removal of trade and currency restrictions and the liberalization of capital movements. Where the distribution of profits was concerned, important reforms included cuts in corporate income tax, incentives for the reinvestment of profits, the removal of restrictions on profit remittances abroad and the signing of agreements on tax stability and investment guarantees. Together with the earlier measures, these reforms were not only appropriate to the global nature of foreign mining companies, but created a very favourable investment climate in the sector.

Certainly, these reforms were not all brought in the same way, or with the same vigour or promptness. As a result, the greatest investment flows went to those countries that not only offered considerable competitive advantages but that had acted most quickly to give more favourable treatment to investment. Mining profits available for distribution are those that remain after minimum earning expectations are subtracted from the after-tax yield of a project. The country where the largest share of this difference goes to investors is Chile, which also reduces the tax burden during the first years of operation. Most of the countries have developed attractive regimes whose incentives compare favourably with those offered in other regions. Intraregional competition for investment also intensified in the 1990s.

Another important development in the decade was that many countries in the region established solid environmental institutions and regulations, at a time when environmental issues were rapidly being internationalized (see chapter VII). Environmental conditions on financing for mining projects were steadily tightened up, and civil society began to exert greater pressure in this regard. Companies have responded very energetically by implementing policies to ensure that their operations are conducted in harmony with the environment and local communities. As new investments incorporate more environmentally friendly technology, the greatest environmental liabilities tend to derive from older operations.

(b) Outcome of the reforms

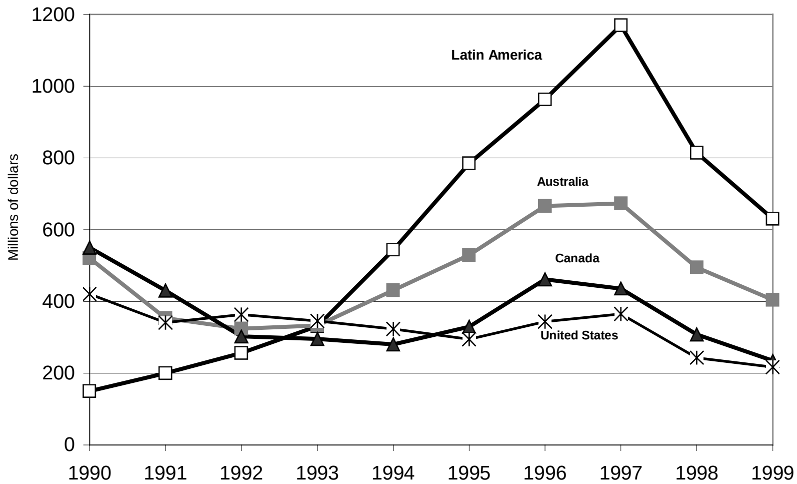
Even though investment responded favourably to these reforms, the international competitiveness of the region's mining sector remained weak. Too little was being done to incorporate added value into exports, and world markets remained unstable. Exploration in the region boomed during the 1990s, giving rise to vigorous but highly concentrated growth in mining investment.

In 1990, the large mining companies allocated budgets of less than US$ 200 million annually for exploration in Latin America. The new conditions for mining investment, coupled with a number of developments affecting exploration spending in countries such as Australia, Canada and the United States from the 1980s onward, aroused interest in increasing such activities in the region.[10] Exploration budgets in Latin America thus rose to US$ 544 million a year in 1994, after which they increased so rapidly that in 1997 they totalled US$ 1.17 billion. That year, the region managed to attract 29% of the world's total exploration budget, estimated at US$ 4.03 billion.[11] Figure IV.1 gives a graphic illustration of this trend and of the scale of exploration spending in the region by comparison with some industrialized countries.

[10] These factors include rising exploration costs in the United States and Canada owing to new environmental requirements in both countries, the withdrawal of tax incentives in Canada and the depletion of reserves in some mining zones. Australian companies boosted their foreign operations for similar reasons, but also because of promising new technological developments for copper and gold production and the high cost of gold mining operations in traditional areas, such as South Africa.

[11] Towards the end of the decade, however, exploration budgets were cut back considerably in response to steadily declining prices and the Asian crisis. The most recent figure available is for 1998, when only US$ 2.83 billion was allocated for exploration. Nevertheless, the region continued to absorb nearly one third of budgeted expenditure worldwide.

Figure IV.1
WORLDWIDE EXPLORATION BUDGETS, 1999



Source: ECLAC, on the basis of figures from the Metals Economics Group.

There are no region-wide statistics to show the trend of actual investment in new projects. Although a sample of five countries yields a figure of some US$ 17.379 billion for investment in the period 1990-1997, these capital flows were narrowly concentrated as a result of massive copper investment in Chile, a country which attracted 51% of all the investment in the sample.[12]

The position of the region's mining sector, however, is vulnerable in certain respects. The main threats include the decline in the share of international trade accounted for by mining products, a failure to focus sufficiently on adding value, structural changes in world consumption and the persistent decline of real prices.

Output of more highly processed products has been particularly disappointing in terms of market share. While the region increased its share of total extraction for most minerals (mine products), it failed to show any significant improvement where goods with greater value added (refined products) were concerned, with the exception of copper (see table IV.10). The failure of the region to increase its share of world exports by value, which remained virtually unchanged at 12% throughout the 1990s,

[12] According to ECLAC figures based on official information from the governments, investment in the other countries of the sample broke down as follows: Brazil, 24%; Peru, 12%; Argentina, 10%; and Mexico, 3%.

was largely due to the high proportion of its output accounted for by goods incorporating little processing and to the decline in its contribution to world production of refined products.[13]

Table IV.10
LATIN AMERICA: ORE AND METAL PRODUCTION
(Average annual rates and percentages)

	Share of world output (%)		Growth rate
	1990	1999	1990-1999
Ore			
Bauxite	23	27	2.9
Copper	25	44	10.5
Tin	27	25	-1.3
Nickel	7	15	11.2
Lead	13	13	-0.2
Zinc	17	21	3.3
Refined metals			
Aluminium	9	9	1.8
Copper	16	26	9.2
Tin	23	15	-3.8
Nickel	7	11	7.4
Lead	8	7	0.2
Zinc	7	7	2.7

Source: World Bureau of Metal Statistics (WBMS), *World Metal Statistics*, various issues.

The region's share of world ore and concentrate exports increased in both volume and value, with the exceptions of ferronickel and zinc. In nearly every case, though, its share of refined metal exports fell off in terms of both volume and value, as table IV.11 shows. Copper was the exception, but even here the region's share of ore and concentrate exports grew by more than its share of refined metal exports (Moussa, 1999).

[13] Latin America's contribution to the worldwide total of ore and metal exports was 12.7% in 1990 and 11.8% in 1995 and 1997. At the same time, developed countries saw their share slip from 60% in 1990 to 58.4% in 1995 and 57.3% in 1997. The winners were other developing countries, whose share rose from 16.7% in 1990 to 20.3% in 1995 and 21.8% in 1997.

Table IV.11
LATIN AMERICA: WORLD EXPORT SHARE OF MAIN METALS, BY VOLUME AND VALUE
(Percentages)

	Volume		Value	
	1990	1999	1990	1999
Bauxite	31.2	33.7	31.9	36.5
Aluminium	14.1	8.9	12.9	8.9
Copper ore and concentrate	19.6	43.9	19.1	40.3
Refined copper	36.0	44.1	36.7	45.1
Tin ore and concentrate	30.4	33.6	28.7	31.9
Refined tin	23.0	9.4	22.5	9.5
Ferronickel	39.2	27.1	43.0	38.2
Refined nickel	4.3	2.0	4.3	1.9
Lead ore and concentrate	20.3	19.5	21.5	29.6
Refined lead	13.3	6.9	12.7	6.9
Zinc ore and concentrate	26.1	24.6	24.2	24.5
Zinc	10.1	7.2	9.8	7.3

Source: United Nations Conference on Trade and Development (UNCTAD), *Handbook of World Mineral Trade Statistics, 1990-1995* (UNCTAD/ITCD/COM/2), New York, 1997. United Nations publication, Sales No. E.97.II.D.3; and *Handbook of World Mineral Trade Statistics*, *1995-2000* (UNCTAD/ITCD/COM/37), New York, 2002. United Nations publication, Sales No. E.02.II.D.1.

World export performance was also unsatisfactory as regards semi-manufactures of mining origin. From 1990 to 1997, the region's share in total exports of aluminium semi-manufactures fell from 4.3% to 2.7% by volume, while its share of tin exports slipped from 4% to 1.5%. Copper exports held steady at around 3.7% of world export volume, and nickel was also stable. Only lead and zinc saw growth, moderate in the first case and very substantial in the second (from 3.9% to 20.2%).

The destination of mining exports is mainly determined by consumption trends in developed countries. The structural changes displayed by world consumption in terms of metal use per unit of output continue to be a source of vulnerability. Nevertheless, the substitution effect that was a feature of the previous two decades seemed to be less significant in the 1990s.[14] Indeed, world consumption grew slightly faster from 1990 to 1999 than in the 1980s, thanks in part to higher consumption in developing countries. Even so, the real prices of most mining products continued to slump (see table IV.12).

[14] Between 1990 and 1998, developed countries' share in world consumption of metals such as copper and zinc did not fall significantly from its early 1980s level, while in the cases of aluminium, tin and nickel it increased. Furthermore, their consumption of most products grew faster in the 1990s than during the previous decade.

Table IV.12
REAL PRICE INDICES FOR THE MAIN METALS [a]
(1990=100)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Aluminium	100.0	77.7	71.7	65.3	81.7	92.4	80.6	90.2	79.6	80.2
Copper	100.0	86.0	80.4	67.6	78.7	92.5	75.6	79.1	59.8	57.1
Tin	100.0	87.7	91.7	77.8	79.5	83.5	86.7	83.7	85.4	83.6
Nickel	100.0	90.0	74.1	56.2	64.9	77.9	74.2	72.2	50.2	65.5
Lead	100.0	67.3	62.7	47.3	61.3	65.3	83.8	71.2	62.7	59.9
Zinc	100.0	72.0	76.6	59.7	59.6	57.0	59.2	80.1	64.8	68.4

Source**:** United Nations Conference on Trade and Development (UNCTAD), *Monthly Commodity Price Bulletin*, New York, various volumes, various issues, and World Bank, *Global Commodity Markets*, Washington, D.C., various issues.

[a] Deflated by the World Bank Manufacturing Unit Value (MUV) index.

These trends seriously affected small-scale formal mining operations, while traditional or informal miners were in danger of disappearing altogether. The operating conditions typical of both groups, especially the latter, pose a persistent and intractable problem. Their cost structure is usually uncompetitive, security of employment is minimal, and their practices are harmful to the environment. One of the most serious shortcomings of mining policies in the 1990s was the failure to take a firm stance on these problems.

In conclusion, the region has abundant reserves of mineral resources on which to build dynamic economic growth, and much potential still remains unexplored. Resources, although concentrated in a small number of countries, are diverse. While this has encouraged considerable product specialization, it also offers great potential for complementarity, which could trigger greater intraregional trade as the countries become more developed.

Strategies and policies to boost competitiveness should encourage wider incorporation of new technologies so that the reserves available can be brought into operation and costs can be cut. The aim should be to reconfigure world supply so that Latin America secures a larger share of international trade on the basis of competitive advantages that are sustainable over the long term.

The new cycle of mining investments in the 1990s took things in this direction, responding not only to existing natural advantages but also to more effective economic policies in the area of natural resource production. Late in the decade, doubts began to arise as to whether the rate of growth that mining investment had seen in the 1990s was sustainable. Nevertheless, it is estimated that worldwide investment in mining will total US$ 51 billion between 2000 and 2007, and the region could take 32% of this total.[15]

It should be noted, however, that some developing countries are approaching a level of industrial maturity such that their consumption patterns can soon be expected to resemble those of developed countries; consumption, in other words, will grow less quickly than in the more dynamic stages of industrialization. Thus, future developments in world markets will be influenced more by the market behaviour of countries such as China, which posted high consumption rates in the 1990s, and by faster industrial growth in other developing countries, including those of Latin America.

4. The industrial sector

(a) Industrial performance and restructuring

The industrial sector has passed through several clearly defined stages over the past 50 years, with large shifts in growth trends. Following successful performance from 1950 to 1974 with average annual expansion rates of 6.8%, growth slowed to an average of 4.3% between 1974 and 1980. The 1980s witnessed a collapse to 0.4% annual average growth. Although the industrial sector recovered strongly in the 1990s with average annual growth of 3.1%, it never regained the vigour of the years before the debt crisis, and even lagged GDP growth slightly, although with variations among subregions and countries. In South America, the industrial output trend was dominated by the negative impact of events in tradable goods-producing sectors; these contracted sharply, losing domestic market share and failing to expand exports significantly. In Argentina, Chile, and Uruguay, where reforms were introduced early, the decline took place mainly in the late 1970s and 1980s and became entrenched in the 1990s. In other cases, including Brazil and Colombia, the downturn began in the 1980s and became more severe in the 1990s. In Brazil, in the countries of the Southern Cone (Argentina, Chile, Paraguay and Uruguay) and in the Andean Community (except Ecuador and Peru), industrial output grew considerably more slowly than GDP from 1990 onward, reversing the trend that had prevailed from the post-war period until 1980. By contrast, a number of industrial subsectors in Mexico and in some Central American and Caribbean countries maintained or increased

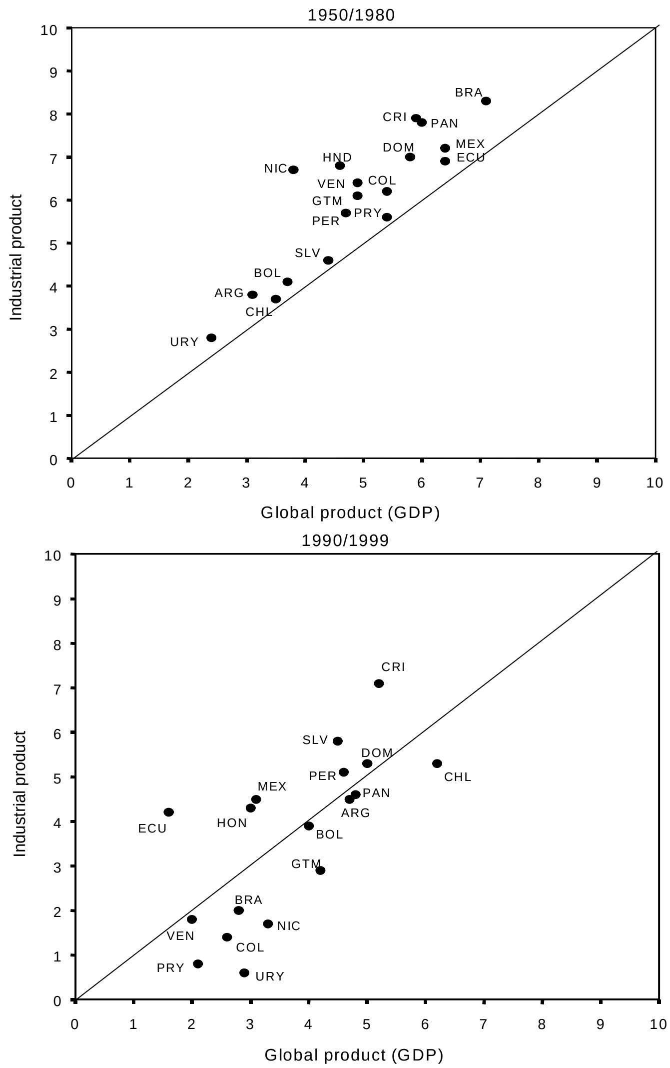
[15] This estimate was taken from the *Engineering and Mining Journal*, which publishes an annual survey of investment forecasts for the following decade based on projects already under way and those that could be feasibly undertaken.

their share of total output thanks to robust manufacturing exports. As a result, industrial output grew faster than GDP in these countries (see figure IV.2).

These contrasting trends in the overall performance of the countries' industrial sectors were accompanied by major transformations in patterns of product specialization. Table IV.13 shows changes over time in the relative weight of different manufacturing branches in five Latin American countries. In all cases, the output of traditional labour-intensive subsectors, especially textiles and wearing apparel, fell in relative or even absolute terms. As markets rapidly opened up and national currencies appreciated, these subsectors found that they were unable to compete successfully with Asian companies, which undercut their prices at the lower end of the market, or with European ones, which dominated the top end of the market with superior design, finish, quality and product differentiation. Meanwhile, industries producing capital goods and industrial inputs ran into problems as the import content of the region's industrial output increased. Although these tendencies were already present in some countries, they became more acute in the 1990s as rapid consumption growth was fuelled by rising real incomes, renewed credit and cheaper imports. By contrast, those parts of industry that were involved in the early stages of raw materials processing (agro-industry, cellulose and petrochemicals) consolidated their position following considerable growth in earlier decades, especially the 1980s, although Mexico was an exception to this trend. Similarly, the automotive industry in Argentina, Brazil, Colombia and Mexico, whose production levels were depressed after the crisis of the 1980s, succeeded in recovering, thanks mainly to the preferential treatment granted to it by the economic authorities in the form of special regimes (Benavente and others, 1996).

In Mexico, as the automotive subsector flourished thanks to preferential treatment and access to the United States market, a variety of assembly activities both in final-use durable goods industries and in branches that diffuse technical progress (machinery, instruments, fine chemistry) also improved their position. Through their production linkages, these industries in turn injected new energy into other activities. This trend towards greater specialization has been spreading to some degree into other countries of Central America (Costa Rica, El Salvador and Honduras) and the Caribbean (Dominican Republic), although the focus is much more narrowly on assembly activities, with less impact on the rest of the industrial structure.

Figure IV.2
LATIN AMERICA: INDUSTRIAL OUTPUT AND GDP GROWTH
(Average annual rates)



Source**:** ECLAC, on the basis of official figures.

Table IV.13
LATIN AMERICA (5 COUNTRIES): CHANGES IN THE STRUCTURE OF INDUSTRIAL PRODUCTION [a]
(Percentages)

	Argentina			Brazil			Chile			Colombia			Mexico		
	1970	1990	1999	1970	1990	1999	1970	1990	1999	1970	1990	1998	1970	1990	1999
I. Metallurgical industry (excluding automotive)	15.6	14.3	13.4	18.8	22.9	22.2	15.9	10.8	11.9	10.7	9.6	9.7	13.3	12.3	15.2
II. Transport equipment	9.9	8.5	12.8	9.9	7.0	8.4	7.7	2.3	1.9	2.9	4.3	6.3	5.5	9.5	13.1
III and IV. Food products, beverages and tobacco, plus natural resource processing industries	36.2	46.7	43.6	35.8	39.6	43.7	41.7	54.5	56.2	45.7	51.1	55.0	46.8	46.8	44.5
V. Traditional industries (labour-intensive)	38.2	30.5	30.2	35.5	30.5	25.8	34.7	32.4	30.0	40.7	34.9	29.0	34.4	31.4	27.2

Source: ECLAC, on the basis of official figures.

[a] I ISIC 381, 382, 383, 385;
II ISIC 384;
III+IV ISIC 311, 313, 314 plus ISIC 341, 351, 354, 355, 356, 371, 372;
V ISIC 321, 322, 323, 324, 331, 332, 342, 352, 361, 362, 369, 390.

(b) Labour productivity gaps and current trends

The different subsectors in which the countries of the region have particularly specialized were the ones that managed to maintain or even narrow the productivity gap with the United States. This is a creditable performance, given the speed with which labour productivity increased in nearly all areas of manufacturing industry in the United States during the 1990s (4.5% a year, on average). Table IV.14 shows the evolving productivity gap with the United States in different branches of industry from 1970 to 1999. Those in which the region is most clearly —albeit falteringly— approaching international productivity levels are the automotive industry and, to a lesser degree, natural resource processing industries. The automotive sector was less affected by trade liberalization than any other, as it has been sheltered by special regimes in most countries where it exists. Lastly, industries that process natural resources have been steadily narrowing the productivity gap with the United States since the 1980s (Katz, 2000b).

Table IV.14
LABOUR PRODUCTIVITY GAP BETWEEN THE REGION [a] AND THE UNITED STATES, 1970-1999
(Percentages of United States productivity)

Industry	1970-1979	1980-1989	1990-1999
Metallurgical	26.7	23.1	17.0
Automotive	28.3	25.5	31.4
Knowledge-intensive	27.2	24.0	19.8
Natural resource processing	34.9	28.7	30.5
Labour-intensive	29.5	23.3	24.1
Total industry	30.8	25.7	24.0

Source: ECLAC, on the basis of official figures compiled in the Industrial Performance Analysis Program (PADI) database.

[a] Argentina, Brazil, Chile, Colombia, Mexico and Peru.

Again, if the period 1970-1999 is divided into two subperiods, 1970-1990 and 1990-1999, and a coefficient of statistical association is calculated for the performance of each industrial subsector in both of them, the trend that emerges is clearly one of path dependency. In other words, those branches of manufacturing industry that tended to make better than average progress during the import substitution phase in narrowing the productivity gap that separated them from peer companies in the United

States likewise tended to perform better in the stage that followed economic opening and liberalization.[16]

Table IV.15 gives estimated growth rates for industrial output, employment and labour productivity in some Latin American countries and the United States.[17] As these figures show, from 1970-1990 only three countries in the region —Argentina, Colombia and Mexico— achieved higher industrial labour productivity growth than the United States manufacturing sector, although in Brazil the rate was only slightly lower. These are the countries whose labour productivity gaps with the United States have shown a declining trend over the long term, although the distance in absolute terms is still great.[18] The other countries considered —Chile, Costa Rica, Jamaica, Peru and Uruguay— have seen the gap widen over the long term. In the 1990s, labour productivity grew faster in Argentina, Brazil and Uruguay than in the United States.

These labour productivity gains in manufacturing industry were achieved at a time when imports were growing substantially, large numbers of small and medium-sized manufacturing companies were going out of business, industrial production was becoming increasingly specialized and a few companies, most of them subsidiaries of transnational firms, were expanding installed capacity and modernizing their technology. The relative weight of these factors varied from country to country.

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16 The cross-sectional estimates for each country, involving 27 observations down to three digits in the ISIC categorization in each case, show that the coefficients of association are statistically significant in all of them (Katz, 2000b).

17 The database of the Industrial Performance Analysis Programme (PADI), compiled recently by ECLAC, was used to calculate indicators of labour productivity as measured by the aggregate value of output per person / year for the period 1970-1996, by country and industrial sector. With this information it is now possible, for the first time, to make comparisons between countries in the region and between these and developed countries.

18 Absolute differences in labour productivity are still considerable. As a proportion of United States labour productivity, the values for this indicator in 1996 were: Argentina, 0.67; Brazil, 0.37; Chile, 0.20 (1995); Colombia, 0.34; Costa Rica, 0.14 (1992); Jamaica, 0.13 (1992); Mexico, 0.38 (1994); Peru, 0.15; and Uruguay, 0.22 (1995). These values were calculated from the ECLAC PADI database, which contains official figures from the countries.

Table IV.15
OUTPUT, EMPLOYMENT AND LABOUR PRODUCTIVITY GROWTH IN MANUFACTURING
(Average annual rates)

	Industrial output		Employment		Labour productivity	
	1970-1990	1990-1999	1970-1990	1990-1999	1970-1990	1990-1999
Argentina [a]	0.1	5.2	-2.5	-2.2	2.6	7.6
Brazil	4.3	0.8	2.8	-6.8	1.4	8.1
Chile	1.9	4.1	1.0	0.8 [b]	0.8	4.2 [b]
Colombia [a]	4.5	1.9	1.9	-1.8	2.6	3.7
Costa Rica	4.8	…	5.0 [c]	---	-0.8 [c]	---
Jamaica	0.5	…	1.8	---	-1.3	---
Mexico	4.1	3.6	1.1	0.2	3.0	3.4
Peru [d]	0.7	5.1	3.1	2.0	-2.4	3.1
Uruguay [d]	1.1	-1.5	-0.2	-8.6	-1.8	7.1
United States [a]	1.5	4.2	3.0	-0.2	1.7	4.5

Source**:** ECLAC, on the basis of official figures.

[a] Data for the second period pertain to 1990-1998.
[b] The employment and productivity data for the second period pertain to 1990-1998.
[c] The employment and productivity data for the first period pertain to 1984-1990.
[d] All data for the second period pertain to 1990-1996.

In Argentina, Brazil, Uruguay and, to a lesser extent, Colombia, productivity growth in the 1990s was accompanied by job losses in the sector and slower output growth. Indeed, in the first three countries, large-scale destruction of industrial jobs was the corollary of the success they achieved in narrowing the productivity gap with the United States. By contrast, productivity in Chile and Peru rose at a time of growth in manufacturing employment and even faster expansion in industrial output.

In the region as a whole, all the evidence shows that the business community is still most inclined to adopt a defensive posture in the face of macroeconomic conditions that are not yet well consolidated. Among the greatest weaknesses of the new pattern of industrial specialization are its composition and, particularly, its ability to create jobs, especially highly skilled, well paid ones.

(c) Manufacturing exports and the dynamism of world trade

One of the main features of globalization where manufactures are concerned is the increasing scale and intensity of international competition. Manufactures are accounting for a greater and greater share of international trade in goods. Of the 239 product groups categorized at the three-digit level of the International Standard Industrial Classification of All Economic Activities (ISIC), in 1996 the 50 most dynamic accounted for around half of all imports in the countries of the Organisation for Economic Cooperation and Development (OECD), as against just 28% in 1980. The greatest increases were achieved by the computer, other electrical machinery and electronic equipment, wearing apparel, chemical and pharmaceutical, automotive, and non-electrical machinery industries. These subsectors contain 34 of the 50 most dynamic export branches, and in 1996 they accounted for 40% of all OECD imports. The share of the other 16 groups of dynamic products, most of them manufactures as well, was about 12%. A common characteristic of these sectors is that they are not based on natural resources. Indeed, growth in international competition has been accompanied by a decline in the relative importance of natural resources and of manufactures based on them.

Several Asian countries succeeded in increasing their share of OECD manufactured goods imports between 1980 and 1996, taking 8 of the top 10 positions (the other two were held by Mexico and Spain). These 10 countries were the source of just over a quarter of all imports, and their success came from their ability to gain market share in the most dynamic product groups. They specialized in what are termed “rising stars” in the ECLAC Competitive Analysis of Nations (CAN) table, which accounted for around 80% of their exports.

Table IV.16 shows the results of applying this methodology to those Latin American and Caribbean countries that have over 40% of the value of their goods exports to OECD countries in a single quadrant of the competitiveness matrix. The only countries that managed to specialize in “rising stars” were Mexico and three countries in the Caribbean Basin (five if Costa Rica and Guatemala are included, although in these cases “rising stars” were outweighed by “fading stars”). Most of Mexico’s (and subsequently Costa Rica’s) “rising stars” were in the automotive and electronics industries, while those of Central America and the Caribbean were mainly in the wearing apparel industry. The countries of South America generally specialized in “fading stars”, gaining market share in products for which import demand in OECD countries is not growing strongly, chiefly natural resources and natural resource-based manufactures. Countries that have built up market share in these natural resource processing sectors, as Argentina, Brazil, Chile and Colombia have done, now face slow-growing world demand.

Table IV.16
LATIN AMERICA AND THE CARIBBEAN: COMPETITIVE ANALYSIS OF NATIONS (CAN) MATRIX, 1980-1996 [a b]

	Rising market share	Falling market share
Dynamic products	Rising stars	Lost opportunities
	Dominican Republic (76.0%)	Haiti (68.2%)
	Mexico (71.8%)	
	Honduras (62.3%)	
	El Salvador (54.5%)	
	Costa Rica (46.1%)[c]	
	Guatemala (42.5%)[c]	
Stagnant products	Falling stars	Retreat
	Paraguay (71.6%)	Suriname (64.5%)
	Venezuela (62.0%)	Nicaragua (48.8%)
	Ecuador (58.6%)	Guyana (47.3%)
	Chile (54.9%)	Peru (46.0%)
	Uruguay (52.7%)	Panama (44.7%)
	Argentina (48.2%)	
	Colombia (44.4%)	
	Bolivia (43.0%)	
	Brazil (37.7%)	

Source**:** ECLAC, on the basis of the Competitive Analysis of Nations (CAN) software.

[a] Countries are placed in the quadrant whose categorization covers over 40% of the total value of their goods exports to the OECD.
[b] The figures in brackets show what percentage of the country's total exports to the OECD belongs to that quadrant.
[c] Even higher proportions of these countries' exports to the OECD belong in the "falling stars" quadrant, however.

Prices for the commodities these countries have been specializing in have been highly volatile, and the effects of this on external imbalances and the overall macroeconomic situation have been severe.[19] When a current-account deficit at the limit of sustainability is combined with a production structure specializing in goods for which world demand is growing slowly and prices are highly volatile, the cumulative effect on the overall economic position may make frequent, severe macroeconomic adjustments unavoidable.

[19] The volatility of international raw material and commodity prices has been accompanied in recent years by significant falls in the prices of capital goods, and this has somewhat masked the *a priori* impact on the terms of trade.

(d) The heterogeneity of producer behaviour

Globalization has increasingly altered the structure of the international market, the nature of those competing in it, technological demands and international regulations and standards affecting trade, investment and intellectual property rights. Manufacturing companies face a new competition situation that has changed the structure, quality and scale of their investments in Latin America and the Caribbean. At the same time, national policies have substantially altered the local business environment by giving investment incentives to national and international companies entering or already operating in the region.

In response to this situation, the subsidiaries of transnational companies, both old and new, found they had to adopt a variety of strategies to redefine their position (see chapter II). Some sought to achieve greater efficiency, integrate their branch offices into globalized programmes, undertake new investments and increase their presence in the world market; others tried to create or defend market share in individual countries or subregions.[20] By the closing years of the decade, they had established a substantially larger presence among the 239 manufacturing firms featuring among the 500 largest companies in Latin America and the Caribbean. Thus, subsidiaries of transnational companies accounted for 57.2% of all industrial sales and an even higher share of exports (68.9%). As table IV.17 shows, they were particularly prominent in the automotive industry (94.4% of the total) and knowledge-intensive branches (73.2%), the very ones that showed the greatest productivity gains.

Large locally owned companies also sought to adjust to the new world economic order, concentrating for the most part on metallurgical (80.0%) and labour-intensive industries (69.6%).[21] The sweeping changes ushered in by this process affected the structuring of industrial companies and plants and the dynamic of the general strategies adopted by the economic groups making up these companies (Garrido and Peres, 1998).

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[20] Besides these changes, towards the end of the decade large transnational conglomerates took major steps towards horizontal integration involving primary, industrial and service activities.

[21] Another important development has been the virtual disappearance of State-owned manufacturing enterprises, following vigorous privatization in all the countries of the region.

Table IV.17
LATIN AMERICA AND THE CARIBBEAN: MANUFACTURERS RANKING AMONG THE 500 LARGEST COMPANIES, 2000
(Millions of dollars and percentages)

		Total	Percentages		
			Private	Foreign	State
1.	Number	239	41.4	57.3	1.3
2.	Sales	334 826	36.6	57.2	6.2
3.	Sales by industry				
	- Metallurgical	37 667	80.0	20.0	0.0
	- Automotive	81 752	5.6	94.4	0.0
	- Knowledge-intensive	74 763	26.8	73.2	0.0
	- Natural resource processing	51 074	35.9	59.2	4.9
	- Labour-intensive	71 163	69.6	30.4	0.0
4.	Exports	98 925	31.1	68.9	0.3

Source: ECLAC, Information Centre of the Unit on Investment and Corporate Strategies of the Division of Production, Productivity and Management, on the basis of information published in the specialized press in Latin America.

The greatest changes made by industrial companies and plants have been in organizational, commercial and financial functions, while changes in production and technology have been relatively minor. Business organizations have tended to cut out levels of hierarchy and flatten their structure, reorganize their activities into business centres or units and professionalize their management. In some cases, this modernization process has coincided with the passing of control from one generation to another in family businesses. In these circumstances, marketing and financial engineering have continued to be the strongest management areas.

Various alternative growth strategies are used by firms to conduct change in an orderly fashion. Three are usually distinguished: retreat, defence and offence. If the first is followed, the long-term result is that the company will cease operating or its original owners will lose control of it. More common than outright closure is the sale of the entire company or a majority holding to transnational investors.

Strategies to defend domestic markets have taken several different forms, including preventive investment, especially in larger economies; importing finished goods for sale to take advantage of local distribution networks; focusing the business more thoroughly and determinedly on the customer, something that has been a particular feature of the food industry; creating industrial and financial groups if local laws so permit; and maximizing profits by securing tax, trade or sectoral benefits which, although their relative importance has decreased, are far from having disappeared. Another defensive strategy adopted by some groups, requiring new, diversified investment, has been to shift from industrial activities into non-tradable services by taking advantage of privileged access to privatizations. Many groups taking this approach have drained funds from their member companies to finance privatization acquisitions or forays into newly deregulated markets, neglecting the investment needed to modernize their traditional activities in the process.

Offensive strategies are more complex, but three types can be distinguished: (i) growth through greater specialization in the core business; examples are provided by certain groups that have focused on processing natural resources, and by others that were already highly specialized and did not need to become more so; (ii) growth with a moderate increase in diversification, a process that involves making individual companies less vertically integrated while increasing the vertical or horizontal integration of the group as a whole by participating in a small number of privatizations or carrying out mergers and acquisitions with other private-sector companies; the basic purpose of all such operations is to realize potential synergies; (iii) growth with extreme diversification, an offensive strategy that is largely pursued through participation in numerous privatizations; this strategy produces true conglomerates without any obvious productive, commercial or even financial synergies, and is often conducted with an investment portfolio approach. Conglomerates bring together dissimilar activities, and their recent rise has been based on links with international capital markets and the largest local banks and with the political decision makers in charge of privatization.

In all cases, a wide range of factors have led to the choice of a particular strategy. Key considerations have been whether the subsector is competitive, and whether the company has achieved maturity through its own learning experiences and the operation of public sectoral development policies. An additional common element in the choice of strategic options has been the growing influence exercised by the external market, either because of the role played by exports and imports or because of the potential for receiving or placing international investment.

Comparisons are difficult because of the nature of the statistics available on locally owned small and medium-sized enterprises (SMEs). Not only do national statistics cover different time periods, but the very definition of these enterprises varies from one country to another. The size categories into which the data are broken down are different from case to case as well.[22] Despite these limitations, table IV.18 illustrates several important points about the role of SMEs in manufacturing industry.

Table IV.18
LATIN AMERICA AND THE CARIBBEAN (15 COUNTRIES): SHARE OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) IN TOTAL MANUFACTURING EMPLOYMENT AND OUTPUT
(Percentages)

Country, year and company size[a]	Employment	Output
Argentina, 1993 [b c] (6-100 employees)	44.6	35.9
Bolivia,1994 [c] (5-15 and 15-49)	26.1	17.6
Brazil, 1997 [b] (20-99 and 100-499)	66.8 [d]	60.8 [d]
Chile, 1996 (10-49 and 50-199)	52.7	37.1
Colombia, 1996 (1-49 and 50-199)	52.5	33.3
Costa Rica, 1997 [b c] (31-100)	13.2	12.6
Ecuador, 1996 (10-49 and 50-99)	37.7	19.4
El Salvador, 1993 [c] (21-50 and 51-100)	17.6	14.8
Mexico, 1993 (16-100 and 101-250)	44.6 [e]	31.1
Nicaragua, 1994 [c] (4-30)	11.7	11.2
Paraguay, 1997 [c] (6-20 and 21-100)	41.0	31.0
Peru, 1994 [c] (11-20 and 21-200)	52.5	36.1
Trinidad and Tobago, 1996 [c] (6-100)	57.0	22.6
Uruguay, 1995 (5-99)	57.9	39.7
Venezuela, 1995 (5-20 and 21-100)	39.5	13.8

Source**:** ECLAC, industrial SMEs database of the Industrial and Technological Development Unit.

[a] Company size is defined on the basis of employment. When only one size range is given, it covers both small and medium-sized enterprises. When two ranges are given, the first is for small enterprises, and the second for medium-sized ones.
[b] Output figures are for total sales.
[c] Total manufacturing employment and value added figures include microenterprises.
[d] Small enterprises (from 20 to 99 employees) contribute 29.5% of employment and 20.9% of output.
[e] In 1998, according to preliminary data from that year's census, the employment share of SMEs was 39.9%.

[22] All these problems affect the tables in this section, so particular attention needs to be paid in each case to the notes provided, to the rows where the countries are named, which give the year to which the information relates, and to the size category or categories covered by this information. The notes are also important for identifying the countries whose data include microenterprises. This category falls outside the scope of the present study, but for some countries it was not possible to obtain breakdowns that excluded it.

In the first place, the figures show that SMEs are not marginal actors in the industrial structure, since they make a large contribution to employment. If the employment figures are relatively low in some cases, this is because of categorization problems. The figures for Nicaragua exclude medium-sized enterprises, and those for Costa Rica small ones. In the second place, contrary to what might be expected, SMEs are more heavily represented in the industrial structure of the larger countries, particularly as regards their share of value added or sales (Peres and Stumpo, 1999). Lastly, the fact that they account for a larger share of employment than of value added means that they have lower productivity, something that is discussed below.

Table IV.19 shows the contribution made to total output by the industrial activities in which SMEs participate. In large countries with more diversified industrial structures (Argentina, Brazil and Mexico), SMEs are mainly to be found in the food, chemical and plastics industries and —a particular feature of the situation in these countries— the metallurgy and electrical and electronics industries. In medium-sized countries (Chile, Colombia, Ecuador, Peru and Venezuela), the food and chemical industries predominate and, by contrast with the previous group, SMEs are not much represented in the metallurgy and electrical and electronics industries. In smaller countries (Costa Rica, Nicaragua and Uruguay), almost all SMEs are in the food industry.

Leaving aside these differences, it transpires that SMEs in the different groups of countries have some new features in common. It is now clear, for example, that most SMEs are no longer to be found in the wearing apparel and footwear industries, but in the food, chemical and plastics industries. This concentration in the food industry suggests that these companies have specialized in labour-intensive subsectors that benefit from natural comparative advantages and have few economies of scale. As the low export figures brought to light by a number of national studies indicate, these SMEs activities are oriented heavily towards the domestic market. The same is true of the metallurgical and electrical and electronic goods produced by SMEs in the larger countries (Peres and Stumpo, 1999).[23]

[23] The same studies, however, show evidence of incipient export activities among small businesses in Brazil, Columbia and Peru, and an increase in small business exports from Argentina..

Table IV.19
LATIN AMERICA (11 COUNTRIES): INDUSTRIAL PRODUCTION STRUCTURE OF SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)
(Percentages)

	Argentina 1993	Brazil 1994	Mexico 1993	Chile 1996	Colombia 1996	Ecuador 1996	Peru 1994	Venezuela 1995	Costa Rica 1997	Nicaragua 1994	Uruguay 1995
Food products	16.1	17.0	16.4	22.1	19.9	30.6[a]	20.0	19.1	32.2	25.9	30.6
Beverages	5.8	1.7	4.7	2.1	4.0	-	4.2	2.1	16.5	2.3	6.1
Tobacco	0.2	0.3	0.0	0.0	0.0	-	0.1	0.1	0.0	0.0	0.0
Textiles	6.6	7.2	6.4	5.6	4.5	7.4	8.0	2.6	0.0	0.3	5.8
Wearing apparel	3.7	2.7	4.6	4.4	5.5	2.9	2.0	5.5	1.2	7.1	5.7
Leather	1.2	1.8	0.8	0.6	1.1	1.9	0.8	0.9	0.0	1.5	0.5
Footwear	1.6	1.8	2.0	1.4	1.2	-	0.6	3.4	1.3	7.2	1.0
Wood and wood products	2.0	1.5	1.5	11.2	1.5	2.2	1.3	1.7	0.3	4.0	1.0
Furniture	2.2	2.6	2.7	1.7	1.2	-	0.9	3.1	2.5	8.2	1.3
Paper	3.5	4.3	3.1	1.3	6.4	4.8	2.3	1.9	4.1	1.3	1.1
Printed matter	4.7	2.5	5.3	4.5	2.6	3.0	5.3	5.8	0.8	5.5	4.8
Chemical products	13.9	18.9	16.2	12.5	16.9	18.1	21.6	12.9	24.7	9.1	17.1
Plastic products	5.3	4.7	5.3	5.1	7.4	6.8	5.8	6.8	0.0	1.3	4.6
Construction supplies	3.7	4.2	6.6	5.3	5.8	4.4	3.9	6.5	2.5	8.7	3.6
Iron and steel	2.5	-	2.3	4.1	2.2	1.7	4.2	6.3	0.0	0.7	2.4
Metal products	7.1	9.4[b]	8.0	8.3	7.5	4.4	5.9	8.0	0.4	13.2	5.9
Non-electrical machinery	6.7	7.0	4.3	4.2	3.5	0.9	3.3	4.9	0.2	0.4	2.0
Electrical machinery and equipment	6.0	5.8	4.8	1.4	2.7	5.3	3.3	3.2	8.3	0.7	2.8
Transport equipment	5.4	3.5	3.2	1.6	3.6	1.0	2.9	3.0	0.3	0.0	1.3
Scientific instruments	1.1	1.3	0.5	0.4	0.6	0.1	1.4	0.8	0.2	0.0	1.0
Other	1.0	1.7	1.2	2.1	1.8	4.4	2.2	1.4	4.3	2.7	1.4

Source: ECLAC, industrial SME database of the Industrial and Technological Development Unit.

[a] Includes beverages.
[b] Includes iron and steel.

Analysis of the production, employment and productivity performance of SMEs brings to light a number of other interesting facts. Firstly, production and employment growth rates differ considerably from one country to another, as table IV.20 shows. While Argentina, Chile (1990-1996) and Mexico display great vitality in terms of output growth, in other cases, such as that of Brazil, Ecuador, Uruguay and Venezuela, growth rates are very low or negative.

Table IV.20
LATIN AMERICA (10 COUNTRIES): OUTPUT, EMPLOYMENT AND PRODUCTIVITY GROWTH IN SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)
(Percentage change)

Country	Output	Employment	Productivity
Argentina,1984-1994	47.7	-24.4	95.3
Brazil, 1986-1997	11.4	-14.2	29.8
Chile, 1981-1990	-14.7	-7.4	-7.9
Chile, 1990-1996	55.6	34.2	16.0
Colombia, 1991-1996	16.2	11.2	4.5
Costa Rica, 1990-1996	22.6	-20.7	36.5
Ecuador, 1991-1996	8.7	-6.8	16.7
Mexico, 1988-1994	48.6	17.1	32.0
Peru, 1992-1994	16.8	8.2	7.9
Uruguay, 1988-1995	2.5	-24.9	36.5
Venezuela, 1990-1995	-5.2	-1.8	-4.1

Source**:** ECLAC, industrial SME database of the Industrial and Technological Development Unit.

In four countries —Argentina, Chile (1990-1996), Mexico and Uruguay— SMEs increased their share of total industrial production in the wake of the economic reforms, while in five others —Brazil, Colombia, Costa Rica, Ecuador and Peru— SMEs increased their output but lost market share. Taken all together, then, businesses of this type display a complex mosaic of situations and performance that does not easily fit into a single interpretative framework.

As was mentioned above, labour productivity is lower in these companies than in the industrial sector as a whole. Considering this, it is worth asking whether structural heterogeneity, as measured by the labour productivity gap between SMEs and large companies, has increased in recent years, or whether in fact it has diminished as economic liberalization and deregulation have brought greater competitive discipline.

Although no systematic region-wide evidence is available, the Chilean case points to interesting conclusions. The data were broken down for 88 industrial branches and were then analysed to ascertain the extent to which the labour productivity gap between SMEs and large companies had narrowed between 1979 and 1995.[24] To this end, the matrix of simple correlation coefficients was calculated for the labour productivity gap, the rate of gross output growth in the branch concerned, the increase in the capital base per person employed and changes in the ratio between skilled and unskilled employees, as an indicator of technical complexity in the subsector.

The indices of correlation show a clear association between progress in narrowing the labour productivity gap and growth rates in the industry concerned. They also suggest that there is no statistically significant relationship with indicators of gross capital formation per employee or with a relative increase in the employment of skilled workers. In other words, if labour productivity in SMEs is compared with that of large companies, it transpires that those operating in faster-growing industrial sectors perform better. By contrast, the rate of investment per employee and greater use of skilled human resources appear to have no significant impact on comparative performance.

This suggests that a critical factor in the relative performance of SMEs is the local and sectoral environment in which they are operating. In an area of production that is expanding rapidly, small and medium-sized companies find market niches in which they can operate successfully. In production areas that are slow-growing or stagnant, by contrast, there is less scope for this. Indeed, it is these subsectors that have accounted for the bulk of business failures over the past two decades.

[24] The analysis, which covered 24 branches of manufacturing industry, distinguished between small companies (10 to 50 workers) and medium-sized and large businesses (51 or more workers) (Katz, 2000b).

Chapter V

Infrastructure service sectors

Infrastructure services have been transformed by a structural upheaval encompassing telecommunications, energy, sanitary services and transport. New production agents from outside the region have made inroads in all these sectors, introducing technological packages that have brought rapid modernization of infrastructure and locally produced services as well as a radical transformation of production processes. While the public sector still maintains a strong presence in all these services, the relative weight of transnational agents has increased significantly and only a few large locally owned conglomerates have been able to incorporate themselves fully into this new group of suppliers. In several countries, some of the sectors concerned have come to be dominated by major transnational corporations, some of them publicly owned, from more developed countries. These changes have been particularly marked in the energy sector and, above all, the telecommunications sector, both of which were privatized relatively early and on quite a large scale. Where transport and water and sanitation services are concerned, on the other hand, the usual practice has been to contract out infrastructure provision and services management while retaining a major role for the public sector as an infrastructure investor and service supplier.

Despite the strength of these trends, reforms in these areas have given rise to a range of models that vary not only from one sector to another, but also from one country to another for the same sector. This diversity is attributable to marked differences in the size and structure of markets, the real degree of competition that it is possible to introduce, pricing procedures, the coverage and quality of services and their environmental impact.

1. Telecommunications

Among infrastructure services, the telecommunications industry has shown an unparalleled rate of innovation which has pushed costs down significantly and eroded former economies of scale. These innovations have produced a constant increase in the variety of products and services, some of them more or less interchangeable, others complementary. As a result, the industry has shown a marked trend towards greater competition among services and suppliers; between fixed-line and mobile telephony, for example, and between cellular telephones and the personal communications service (PCS) system. However, there have also been trends towards integration and monopoly, as in the case of the new asymmetrical digital subscriber line (ADSL) technologies, which allow the capacity of old telephone lines to be expanded substantially.

Other opposing effects have resulted from rapid technological innovation. On the one hand, large productivity gains have benefited both suppliers and users of many services. On the other, the rate of change has been so fast in some areas recently that it has acted as a deterrent to investors, owing to the speed with which certain products and services have become obsolete. One such area is long-distance telephony, as the prospect of massive competition from Internet telephony becomes imminent.

Telecommunications companies were the most highly prized by foreign investors in privatization processes. Since the late 1980s, the main State-owned telecommunications companies in the region have passed into private hands and cellular telephony licences have been auctioned off in almost all the countries (Melo, 1997). In this new environment, the most active transnationals have been Telefónica of Spain in fixed-line telephony (local and long-distance communications) and the United States firm BellSouth in mobile telephony. The recent privatization of the Telebras system in Brazil revealed how much interest there was among foreign companies in assets of this type in the region, since the Brazilian Government received more than twice as much from the sale as it originally anticipated. Something similar had happened earlier in Peru, although the amounts involved were smaller.

A trend already firmly established in the markets of the industrialized countries, that of growing integration between telecommunications systems and other communications media (terrestrial, cable and satellite television, Internet access and the press), is slowly beginning to emerge in the region. This trend is especially evident in Argentina, for example, where an unusual type of strategic alliance is being formed between Telefónica of Spain and Citicorp, a United States bank, with a view to controlling a substantial share of telecommunications services in this broader sense of the term.

The countries of the region have followed very different strategies in their efforts to modernize the technology used in their telecommunications systems. At one end of the spectrum is Chile, where early deregulation and privatization of telecommunications generated a competitive climate, with a variety of new international actors entering the market with a view to positioning themselves in the region and capitalizing on the experience thus gained (Melo and Serra, 1998). At the other end are Costa Rica and Uruguay, whose approach to modernizing the sector was to maintain the State monopoly in basic telephony while gradually opening cellular telephony and value-added services up to newcomers.[1] Between the two extremes lie Argentina, Brazil, Mexico, Peru and Venezuela, which also opted for privatization of services but which, unlike Chile, granted short market exclusivity periods (monopolies) to new operators in the sector. In the case of Colombia, a competitive system was established among publicly owned national and municipal enterprises working in partnership with private firms. These models clearly involve dissimilar market structures and competition regimes, and the performance of individual production agents has differed as a result.

As in other fields of activity examined earlier, labour productivity[2] throughout the region's telecommunications sector grew strongly in the 1990s by historical standards (Walter and Senén González, 1999). Although labour productivity increased in all the cases considered, there were differences between countries (see table V.1), and these suggest that there is a need to analyse each specific national situation in order to understand how the modernization process worked in the case of telecommunications and what impact this had on the well-being of society.

1 In the case of Costa Rica, this strategy has recently been the subject of controversy. In Uruguay, the policy was adopted after a referendum in late 1992.

2 This indicator may vary from one country to another, often because the definition of what an employee is differs according to the way subcontracted services are treated for accounting purposes.

Table V.1
PRODUCTIVITY IN THE TELECOMMUNICATIONS INDUSTRY
(Main lines per employee)

Year	United States	Argentina	Brazil	Chile	Colombia	Mexico	Peru	Uruguay
1990	149	76	87	88	96	107	36	51
1991	153	91	100	110	104	122	38	60
1992	162	101	111	134	111	138	49	68
1993	168	118	121	160	123	156	56	75
1994	172	150	128	179	136	174	87	88
1995	177	186	143	184	185	180	131	98
1996	184	224	169	239	228	181	229	113
1997	187	295	195	261	288	190	282	132
1998	176	336	236	292	180	179	241	142
1999	182	345	261	315	187	183	254	155

Source: International Telecommunication Union (ITU), *Yearbook of Statistics, 2001*, Geneva, 2001.

Although privatization of telecommunications services has not proved to be a precondition for technological modernization in the sector, in many cases it has been an effective factor in improving the internal efficiency of companies. In any event, what has shown itself to be a prerequisite for modernization is the break-up of the integrated monopolies inherited from earlier periods, so that competition can emerge in different areas and services. The entry of new actors into the market, and the competitive pressure that new technologies such as cellular telephony, satellite services and coaxial cable and fibre-optic networks are beginning to exert on traditional fixed-line telephony, are the forces which, in the final analysis, are modifying the structure and behaviour of the sector, irrespective of whether operators are public or private.

This constantly changing and increasingly competitive industry also presents major challenges for sectoral regulation, in particular with respect to interconnections and to service addressing and portability. While there are similarities with other network-based infrastructure services (economies of scale and sunk investments), there are also distinctive features, such as the variety and continuous development of services and the use of the electromagnetic spectrum as a special and often indispensable resource. These characteristics and the fact that, in many countries, telecommunications services were the first to be privatized, have made the sector a veritable laboratory for the development of regulation in other areas of the economy.

The modernization of telecommunications is linked to a large number of other issues, in particular the systemic character and inseparability of technological, economic and institutional developments. The increased systemic maturity that the improvement of telecommunications entails undoubtedly affects activities upstream and downstream of the subsector itself. Companies' suppliers and contractors are affected, and so are all users of their services. It is undeniable that an efficient, low-cost, high-coverage telecommunications system is an inseparable part of the mature institutional and economic structure that any society needs if it is to achieve systemic competitiveness. The recent introduction and gradual development of a world-class culture in telecommunications is thus a significant contribution to the long-term development of the region's countries.

Again, synergy between the telecommunications and information-technology industries is a key factor in determining the impact that both of these will have on the countries' social and economic development. Communications allow data to be accessed anywhere at any time, while the function of information technology is to organize them and make them available in whatever form users require. On the supply side, communications and information technology have been integrated not only in a technical sense at the production stage, but also in the marketing of products and even in the corporate administration of the businesses concerned.

Lastly, attention should be drawn to the strong relationship between sectoral telecommunications policies and general policies to improve information provision and transparency in government and society. On the one hand, the development of information technology and telecommunications offers an undeniable opportunity to achieve wider participation and greater democratization. On the other, it poses a serious risk that these services may widen the social gap. Thus, to speak of those who have access to communications and information and those who do not is almost tantamount to distinguishing between full members of society and those at the margins, those who count in determining the destiny of their nations and those who do not.[3]

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[3] At the end of the decade, for example, the percentage of the total population with Internet access was 26.3% in the United States, 6.9% in the OECD countries other than the United States and 0.8% in Latin America and the Caribbean. In the other developing and transition regions, the percentages were all lower than those for Latin America and the Caribbean (UNDP, 1999a).

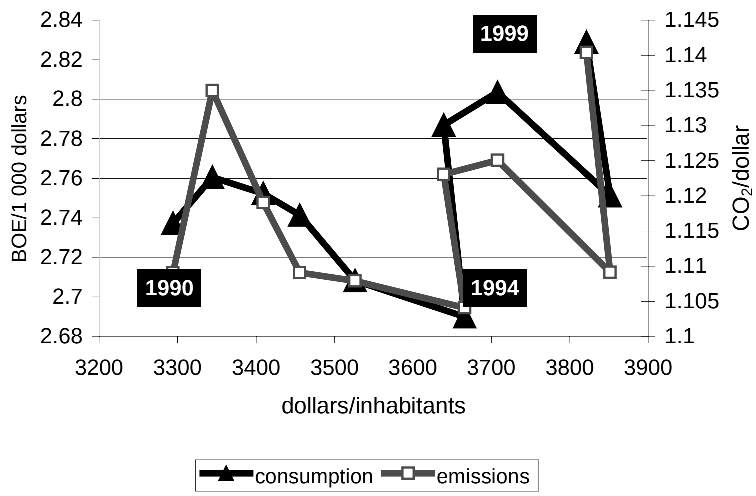
2. Energy reforms

The thrust of the energy reforms implemented in the 1990s was to intensify the use of market mechanisms and expand opportunities for private actors by removing barriers to entry, after several decades of dominance by State-owned monopolies in the sector. As in the case of telecommunications, a range of methods were used to achieve these aims. As a rule, the tendency was to introduce competition mechanisms, or regulatory mechanisms when competition was not feasible, and to promote private investment or privatization as appropriate. All of this was done amidst a general conviction that barriers to private capital entry were causing the region to be excluded from the benefits of technological progress.

At the same time, the reforms sought to modify the role that the energy sector had been playing in macroeconomic management, with particular reference to the effectiveness of price controls and subsidies as a means of countering inflationary pressures, the fiscal management of energy revenue, the self-financing capacity of State-owned enterprises and changes in the composition and use of external financing. From this global perspective, reforms included features relating to price correction, restructuring and financial reorganization of State-owned enterprises. Taken together, these measures contributed enormously to the stabilization of the region’s economies, and energy reforms were undoubtedly influenced by the objective of achieving effective macroeconomic management, as well as by the interests of the energy sector itself (Sánchez Albavera and Altomonte, 1997).

As regards sectoral policy, the objective was to find a sustainable approach to the harnessing and use of energy sources. Notwithstanding this general orientation and the slow growth recorded in per capita energy consumption, the region is far from showing adequate levels of efficiency in energy transformation and use. This is demonstrated by the stagnation in its energy-intensity (energy consumption per unit of output), which can be attributed to its failure to introduce energy-efficient technologies rapidly; by the obsolescence of its industrial plant; and by the high and inefficient fuel consumption of the vehicles used there, among other factors. Furthermore, carbon dioxide emissions per unit of output have risen, increasing environmental damage from energy use (see figure V.1). By the end of the decade, this evidence that energy efficiency reforms had not had the impact hoped for had placed the issue at the centre of initiatives to bring greater rationality to the use of natural resources.

Figure V.1
SPECIFIC ENERGY CONSUMPTION PER UNIT OF OUTPUT



Source: Own calculations based on data from ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, Santiago, Chile, various issues, and Latin American Energy Organization (OLADE), Sistema de información económico-energética, Quito, July 2000.

The main differences in the reforms applied to energy industry subsectors were in the way competition mechanisms were introduced into the markets concerned. The tradability of petroleum, and to some extent of petroleum derivatives, facilitated the introduction of measures to enhance competition. It was just a matter of eliminating the legal barriers that artificially hindered new actors from entering these markets and the activities associated with them. Clearly, the higher the degree of concentration in a market, the less effective competition there is among existing and/or potential actors. The main differences between one country and another in the oil industry reforms they introduced stemmed from the scale of their reserves, the size of their domestic markets and the degree of development attained by the State-owned enterprises involved.

Introducing competition conditions in the electricity and natural gas markets necessitated far more thorough-going structural adjustments. As a result, a wider variety of approaches were taken, especially as regards the degree of liberalization (limited or total) and the basic regulatory principles introduced. One noteworthy feature of these subsectors is the growing interrelationship between the two production chains, especially since reform. This interrelationship has arisen, on the one hand, because the use of natural gas in power generation stimulates effective competition in electricity markets and, on the other, because there is growing competition between the two sources in transport services (gas pipelines versus transmission lines).

These interactions are especially important in the context of regional energy integration, considering the multiplicity of projects being proposed by State-owned and private corporations both from within the region and from other countries in the world. Strategic alliances among companies from every part of the energy sector are bound to take on greater importance in the post-reform period. Thus, for example, a strong link has started to develop between natural gas transportation and distribution mega-projects and electricity generation in Brazil. A United States company, Enron, has been especially active, having become heavily involved in every part of the energy supply chain from natural gas extraction, transportation and distribution to electricity generation, at both the national and subregional levels.

(a) Reforms in the electricity industry

The reforms introduced in the electricity industry were the most far-reaching and diverse in everything from market restructuring (generation, transmission and distribution) and the incorporation of new actors to the revitalization of capital markets, privatization and the establishment of regulatory agencies. Significant changes in the way the industry operated came with vertical disintegration and the limitation of public service activities to electricity transmission and distribution, which marked a major shift from the role that State monopolies had played in earlier decades.

Prior to the 1990s, economic coordination of the industry rested with vertically integrated State monopolies which combined commercial and regulatory functions. The reforms shaped a new institutional system involving a prominent regulatory role for the State in public service activities, in the mechanisms used to coordinate generation and distribution operations (economic load dispatch centres) and in the expansion of services, which was guided by indicative plans drawn up by the competent authorities. Corporate efficiency, in this context, meant pricing based on long-term marginal cost (in the case of generation) and on maintenance costs and standardized replacement values plus a reasonable profit (for transmission). In the case of distribution, the benchmark was generally the performance of model companies in economically suitable concession areas, and distribution rates had a minimum level of profitability guaranteed by law.

Towards the end of the decade, the State retained its dominant role as a coordinating body in only a few countries. Total or partial deregulation of generation, combined with regulation of transmission and distribution, has been the usual approach in the region. Efforts are being made to foster competition in power generation and to regulate natural monopolies in transmission and distribution, opening up their networks to all. This dominant approach, which manifests itself in different ways according to the nature and size of national power markets, has shaped three reform styles, as outlined below. Table V.2 shows that the first two are the most common in the region.

- Elimination of entry barriers throughout the power supply chain, with vertical disintegration of the industry and free access to transmission and distribution grids (full liberalization).
- Elimination of entry barriers in some segments of the industry (partial liberalization), but with the State retaining a dominant role.
- Maintenance of vertically integrated State monopolies, albeit subject to varying degrees of regulation.

Table V.2
LATIN AMERICA: ECONOMIC COORDINATION IN THE ELECTRICITY INDUSTRY

Size of the system	Open access	Single State purchaser	Monopoly
0-500		Guyana Nicaragua Suriname	Barbados Grenada Haiti
501-1 000	Bolivia El Salvador	Honduras Jamaica	
1 001-2 000	Guatemala Panama	Costa Rica Trinidad and Tobago	
2 001-5 000	Dominican Republic Peru	Ecuador Uruguay	Cuba
5 001-10 000	Chile		Paraguay
10 001-20 000	Argentina Colombia		
> 20 000	Brazil Venezuela	Mexico	

Source: Sánchez Albavera and Altomonte, "Las reformas energéticas en América Latina", Medio ambiente y desarrollo series, No. 1, Santiago, Chile, ECLAC, April 1997.

Nevertheless, although the degree of progress differs, institutional reform is still incomplete and market action remains marginal. There would be greater diversity if ownership were linked to the scope for competition opened up by the reforms, as measured by the extent to which strict vertical segmentation, more or less marked horizontal partition and real transparency in transactions are genuine features of the market. On the whole, the dominant tendency is to move away from centralized control. Even in Mexico, independent generators have the right —at least as far as the regulations are concerned— to enter the market, although in practice this partial liberalization has not yet amounted to much. As against this, both Cuba and Paraguay are expected to move their power-supply arrangements towards a single-buyer system at some time in the future (OLADE, 1999).

It is highly probable that in several of the countries where the State now acts as the sole buyer, partial liberalization may be just an intermediate step towards a more significant role for the market and greater private-sector participation. Nevertheless, the prospects for opening up power generation to greater competition are severely limited by the absolute size of the markets concerned. The move from partial to total liberalization in the Central American countries can only take place if there is fuller integration of their power supply systems, including harmonization of regulatory frameworks (OLADE / ECLAC / GTZ, 2000).

More than 15 years after the movement towards privatization in Latin America began, no exhaustive evaluation has yet been made of the results. One reason for this is that the process is still under way in several countries, while in others it has not yet begun; another is that a full and comprehensive evaluation requires consideration and quantification of short-, medium- and long-term effects. Despite this, a number of developments, some of them positive, some negative, can be identified with respect to production efficiency, pricing and regulatory practice (Altomonte, 1999).

With respect to production efficiency, it should be pointed out that labour productivity (measured in terms of sales per worker) increased in both privatized and State enterprises. In Argentina, there were significant productivity rises at the three main privatized electricity companies: 73% at Empresa Distribuidora y Comercializadora Norte (Edenor), 83% at Empresa Distribuidora y Comercializadora Sur (Edesur) and 77% at Empresa Distribuidora La Plata (Edelap). In the first two cases this was due to cutbacks in staff, while in the third it was due to higher turnover. In Mexico, labour productivity in the two State-owned enterprises, Comisión Federal de Electricidad and Luz y Fuerza del Centro, improved by 40.8% and 137%, respectively, between 1988 and 1997.

Another indicator of production efficiency is the percentage of distribution losses. Here, there is no conclusive evidence that structural reforms in the subsector have brought any substantial improvements in the short term. Major reductions have occurred in Chile (from 14% down to 8% between 1990 and 1998) and in the three main distribution companies in Argentina (from over 20% in 1992 to less than 10% in 1998), which could indicate positive effects. At the same time, however, the performance of public- and private-sector companies in the Argentine provinces has shown no clear trend.[4]

Developments in pricing have varied according to the structure of the electricity industry. One situation, best exemplified by Argentina, is where competition in power generation was introduced along with network liberalization. Certain objectives established by Argentina's Law 24065 and Regulatory Decree 1398/92 have not been achieved, insofar as lower prices on the wholesale electricity market have not been passed on in full to captive users, and in some cases price changes have not only failed to reflect such savings adequately, but have been regressive as well.[5] On the other hand, the distribution company in the province of Entre Ríos, which was sold to a private bidder in 1996, has passed on partial benefits to its users.[6] In this case, while consumer rates have fallen by less than wholesale electricity prices, and the reduction has been regressive, at least low and medium users in the province have not been penalized by the pricing structure to the same extent as those in the metropolitan area.

A different pattern of price changes is seen in systems, such as that of Mexico, where the single-buyer system predominates. In Mexico, the average residential rate has trended downwards; between 1985 and 1997

[4] On the one hand, a number of privatized corporations in the provinces still show major distribution losses, while others have made enormous efforts to eliminate non-technical losses, as in the cases of Empresa Distribuidora de Energía de Catamarca (Edecat) in the province of Catamarca (11%) and Empresa Jujeña de Sistemas Energéticos Dispersos (EJSED) in Jujuy (13.1%). On the other hand, some provincial public-sector enterprises display high percentage losses, including Chaco (17%), Córdoba (22%), Corrientes (20%), La Pampa (24%) and Santa Fe (20%), while in other provinces (Mendoza, Neuquén and Santa Cruz) public corporations record low percentage losses (Secretariat of Energy, Argentina, 1997).

[5] Although increased competition among generators in the wholesale market slashed the average spot price by 42% between 1992 and 1998, the benefits of this improved efficiency went to the more prosperous social sectors. In the Buenos Aires metropolitan area, rates were cut by between 18% and 20% in real terms for medium and high consumption users (over 300 kWh/month), while rates for low and medium-low consumption users (up to 150 kWh/month) went up by between 12% and 17%.

[6] Between 1996 and 1998, average contract and spot prices on the wholesale electricity market fell by 7% and 19.3%, respectively. This fall in wholesale prices was reflected in rate cuts of 2.7% for very light users (50 kWh/month), 7.4% for those using up to 150 kWh/month and just over 6% for those using more than 300 kWh/month.

it fell by an average of 7.6% a year, although sharp fluctuations were seen in different subperiods.[7]

A third situation is where systems are formally open but effective competition is impossible. This is best exemplified by Bolivia (OLADE/ECLAC/GTZ, 2000), where the law provides for the existence of a wholesale electricity market made up of generating, transmission and distribution companies and unregulated consumers conducting electricity trading and transmission operations through the national interconnected system (SIN). However, the law has not yet entered fully into force. One notable point is that distributors in isolated systems charge more than those connected to the SIN.[8]

As regards regulatory practice, it is worth highlighting a number of problems linked to the degree of openness and organizational complexity of the electricity industry in each country.[9] In countries with a federal structure, regulatory difficulties may arise as a result of conflicts between national and provincial laws (Argentina). Problems may also arise when institutional arrangements are inadequate or inappropriate, as became evident during the 1998-1999 energy crisis in Chile in relation to the constitution and management procedures of the Economic Load Dispatch Centre. In Bolivia, the difficulties have been due to certain conditions imposed by companies during the capitalization process, and to specific market failures.

Secondly, vertical integration in the industry and the reintegration processes mentioned earlier have created difficulties because of their impact on actual competition, as opposed to the competition provided for in the countries' respective regulatory frameworks. On the one hand, technical and functional concentration in the different energy production chains, and even in the sector as a whole, has generated some concern (Peru). On the other, it is beginning to look as though vertical and horizontal integration of the industry is an important factor in enabling foreign corporations to achieve the level of profitability they expect, especially in smaller markets.

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[7] The rate declined by 14% a year between 1985 and 1989, rose by 22% a year between 1990 and 1992, and then fell by 28% a year until 1997.

[8] In 1997, average prices were 92% higher in Trinidad (isolated system) than in La Paz (connected to the SIN), with a smaller difference for residential rates (75%) and a larger one for industrial rates (102%). It is worth noting that the La Paz market has traditionally been served by ENDE, a company which generates its own hydroelectric power and thus saves on transport costs between different business units, to the advantage of the end user. Distributors in isolated systems purchase energy from other producers.

[9] See Altomonte and Moguillansky (1999); Pistonesi (2000); Campodónico (2000); and OLADE/ECLAC/GTZ (2000).

Thirdly, there have proved to be serious deficiencies in the way competition operates in wholesale markets. In these markets, prices are set on the basis of the short-term marginal cost of the whole system plus an additional capacity charge. The latter allows some generating companies to appropriate hydroelectricity rents and/or quasi-rents arising from windfall profits since, in countries such as Argentina, Bolivia, Colombia, Guatemala and Peru, there is a significant amount of discretion involved in calculating the capacity charge. In Chile, capacity payments are based on assumptions relating to the risk of power failure and therefore provide no incentive to invest in stand-by capacity. This gave rise in 1998-1999 to the serious supply problems referred to above, for which generating companies did not accept responsibility, despite the surcharges they had collected over a long period.

Fourthly, various problems have arisen with respect to the cost of access to transmission grids. In 1996, the Argentine Electricity Regulation Authority stated that the mechanisms established to determine how networks should be expanded and to distribute the resultant costs among the companies using them had serious failings which were causing resources to be allocated inefficiently. In the case of Chile, the transmission network of the Central Interconnected System belongs to the main generating company and the fees charged for use of it are unregulated. These characteristics clearly weaken the effectiveness of competition among generating companies.

Fifthly, other problems derive from regulators' imperfect understanding of distributors' costs when production is efficient, a fact that makes it difficult to calculate their profitability accurately. In neither Argentina nor Chile have prices in the regulated segment of the market followed the marked downward trend in wholesale costs. Again, there have been problems with the interpretation of technical concepts included in regulatory provisions, and in many cases these have given rise to serious disputes. Such a dispute arose in Peru over the procedures for determining replacement as new value and distribution value-added, culminating in a legal battle in the Supreme Court. In Argentina, the crisis resulting from technical failures by the distribution company Edesur raised the issue of whether prior approval from the regulatory agency should be required for the investments of regulated corporations.

Lastly, regulatory practice has found it quite hard to cope with the way prices in downstream segments of the industry vary depending on the time of day. In Argentina, seasonal prices are used when electricity is traded on the spot market, and there is a stabilization fund to match real-time distribution prices with those that result from seasonal planning. In Colombia, by contrast, no compensatory mechanism is used, despite the country's limited ability to regulate supply using hydroelectric sources. The result is highly variable pricing in the spot market, with all the uncertainty this means for users.

In short, these deficiencies show that there is a need to redouble institutional efforts and to make the operational improvements that are required if laws and regulations are to be complied with and the regulatory deficit in the subsector thereby remedied.

(b) Reforms in the oil and gas industry

Although the basis and justifications for reforms in the oil and natural gas sector are in keeping with the general framework outlined above, there are significant differences between countries. These are mainly attributable to the volume of their oil and gas reserves, their market size and the State-owned corporations involved in the sector.

Specific factors include falls in proven reserves and the rate of exploration, dependence on imported supplies, the incentives for deregulation and vertical disintegration, fiscal pressures that encourage asset sales and the perceived obsolescence of policies excluding private investors.

The general rule has been to maintain a regulated system of contractual participation in upstream segments of the industry (exploration and extraction) complemented by deregulation of downstream segments (transportation, refining, storage, wholesale marketing and national distribution).

In upstream segments, the main reform was the removal of the barriers to entry that existed in some countries in the region with large reserves or potential yields of either crude oil or gas. In both subsectors, the most common practice up until the end of the 1980s —except where major producers were involved— was for these operations to be subcontracted to third parties under the administration of the State enterprise. Brazil and Venezuela both dismantled their entry barriers in the 1990s, although contract procedures differed greatly between the two countries. In Brazil, licence contracts were awarded through a competitive bidding process, with a view to procuring the maximum revenue for the State. In Venezuela, the most important contracts with the private sector provided for a profit-sharing arrangement and went to the bidder that conceded the largest share to the contracting company, Petróleos de Venezuela (PDVSA).

As table V.3 shows, private investment in upstream operations in most countries of the region is based on operating, participation (at the contractor's risk) or joint venture agreements, which have replaced the traditional concession regime. The common feature of these contracts is that the private investor assumes the prospecting risks. Once a deposit has been discovered, the contractor's contribution (in money or in kind) and freedom to dispose of the oil or gas extracted vary from case to case. Contracts stipulate that the share to which the contractor is entitled must be sold, at international market prices, to supply the domestic market or to generate exportable surpluses, which will be managed by the State-owned corporation.

The main changes introduced recently relate to prospecting time limits, the obligation to drill wells and the remuneration of contract-holders. This remuneration has tended to increase as an incentive to investors. Again, most countries have abolished foreign trade monopolies, the exceptions being Mexico and Venezuela. The trend has been for new agreements to take the form of licences under which contractors are free to sell their oil or gas on the domestic market or to export it.

Contractual arrangements for the development of gas fields are similar to those mentioned above. The impact of the reforms carried out in this case has been on the scope for vertical disintegration and on the regulatory systems governing wholesale distribution.

Some countries have introduced major institutional changes in the management of upstream segments by separating the commercial and contractual functions that State-owned corporations used to combine. Thus, Perupetro in Peru and the Agência Nacional do Petróleo in Brazil were established to take responsibility, among other things, for negotiating and signing contracts with private investors. In Argentina, until 1999, the Secretariat of Energy (part of the Ministry of Economic Affairs and Public Works and Services) dealt with matters of national importance, while all other issues had to be negotiated with the provincial governments. In most countries in the region with oil-producing potential, however, State-owned enterprises still retain responsibility for contractual functions.

Almost all the countries in the region now allow private-sector participation in the downstream segments of the industry, the most significant development in this regard being the remarkable shift in Brazilian liberalization policy that resulted from the 1995 constitutional reform. As regards recent events in these segments of the industry, many of the region's countries have seen major investments in retail distribution, which has been largely deregulated.

Table V.3
CONTRACTING ARRANGEMENTS IN THE OIL AND GAS SECTOR

Contract type	Systems controlled by State corporations			Market		
	Control by State-owned commercial enterprise	Participation of third parties		State corporation dominant	State corporation present	No State corporation present
		Single buyer	Right to dispose of partner's crude			
Concessionary and licensing agreements				Brazil (as from 1998)		Argentina [d] Peru [c, d]
Participation agreements		Cuba	Ecuador		Bolivia [c, d] Suriname [a] Trinidad and Tobago	Guatemala [b, c]
Obligation to form joint venture		Chile	Colombia			
Profit-sharing and operating contracts		Venezuela [a]				
Direct relationship State/firm	Barbados[a] Brazil (prior to 1998) Mexico					

Source: Latin American Energy Organization (OLADE), Resultados de la modernización y perspectivas de la integración energéticas en América Latina y el Caribe, Quito, November 1998.

[a] Not free to dispose of crude.
[b] Free to dispose of crude for cost recovery.
[c] Free to dispose of crude for remuneration purposes.
[d] Contractor completely free to dispose of crude.

Nevertheless, the refining segment is essentially oligopolistic in structure, while in transport and storage monopolies are the rule, owing to economies of scale. The feasibility of vertical disintegration has been determined by market size, since in practice this option has been viable only in larger markets. In the cases of transport and storage, which in most instances are natural monopolies, a system of open access is applied on the basis of companies' installed capacity and the commitments they have entered into.

Apart from the removal of barriers to entry and the widespread dismantling of State-owned monopolies, the most noteworthy feature of downstream activities has been the elimination of price controls and subsidies, although these still persist in a few countries. The main aim of the reforms has been to ensure that prices reflect international parities.[10] Where importing countries have applied domestic price stabilization schemes, there have been two variants: in some cases, direct price controls or the reduction of operating margins, and in others (such as Chile, Colombia and Venezuela), the establishment of oil price stabilization funds.

With respect to gas, new laws have been passed in Argentina, Chile, Colombia, Mexico and, more recently, Venezuela. By and large, these provide for open, negotiated access to upstream activities, with wellhead prices being based on international reference rates. They also include provisions designed to foster competition and public regulation in the transportation and distribution segments —which are classed as public service activities— in view of their natural monopoly characteristics. The methods currently used to coordinate downstream segments are shown in table V.4.

[10] This has been a controversial issue. Producer countries where control is wielded predominantly by State-owned enterprises have not always adopted domestic prices that reflect the opportunity cost of exports (FOB at the port of embarkation). In the case of predominantly importing countries, domestic prices have tended to reflect import parities (CIF at the port of destination), while in the case of countries that both import and export the existence of a competitive system should help to bring domestic prices closer to export parities.

Table V.4
COORDINATION METHODS IN DOWNSTREAM SEGMENTS OF THE NATURAL GAS INDUSTRY

Type of country	Central control	Single-buyer system	Open market (wholesale) and regulated market (retail)		
			Negotiated access to transport	Regulated access to transport	
				Permit required for integration of functions (transportation and wholesale trading)	Separation of functions obligatory
Exporter	Trinidad and Tobago				Bolivia
Self-sufficient producer without surplus	Barbados Venezuela	Colombia		Mexico Peru	Argentina
Importer			Brazil	Chile	

Source: Latin American Energy Organization (OLADE), Resultados de la modernización y perspectivas de la integración energéticas en América Latina y el Caribe, Quito, November 1998.

In Argentina, a country with a mature market, the State monopoly has been dismantled, a system of free trade has been brought in and the industry has been totally privatized. This model also includes a disintegrated gas extraction, transportation and distribution chain, operating and distribution concessions and open access to gas pipelines, with only the transportation and distribution segments being subject to regulation. In Argentina and Colombia, the law does not permit vertical integration; in Bolivia and Mexico, it is only allowed in exceptional circumstances; and in Chile, the operator retains freedom of action.[11]

Price-setting in regulated segments is based on considerations relating to the economic efficiency and financial viability of operators. Regulated prices have to be calculated on the basis of a competition model in which the sensitive variables are operating costs, productivity increments and the distribution of efficiency gains between operators and users. Thus, the costs of inefficient management cannot be passed on to users and operators cannot appropriate profits deriving from restrictive practices. From the point of view of financial viability, the prices set must be high enough for operators to recoup their investments and their operating, maintenance, replacement and expansion costs, while still obtaining a reasonable rate of return.

[11] Doubts have been raised as to whether disintegration is a good way of developing the industry in countries where the market is still relatively new. The difficulties encountered in operating the Camisea gas fields in Peru illustrate the problems that can arise.

To achieve these aims, pricing mechanisms provide for price caps (Argentina and Mexico), regulation by rate of return (Bolivia) and systems of "supervised freedom" (where there is competition) and "regulated freedom" (where there is not). In the latter case, a combination of price caps and rate of return criteria may be used, as in Colombia.

Liberalization of the gas industry has prompted a dynamic process of physical integration in the Southern Cone. Countries have formalized a number of agreements designed to create legal frameworks that facilitate gas trading, the aim being to create a mass market for gas consumption and to improve the environment by encouraging the building of electricity plants that operate with this relatively harmless fuel.[12] In Central America, proposals for a gas link with Mexico are being studied. Similarly, Colombia and Venezuela are positioning themselves as major regional suppliers.

(c) The corporate dynamic in the energy sector

The reforms adopted in the energy sector have unleashed a strong corporate dynamic driven by the new actors that emerged from the privatization process and by a renewed flow of foreign investment. In some cases, privatization of the energy sector has also helped to boost regional stock exchanges both through the issuing of new instruments and through a considerable increase in transaction volumes. Unprivatized State enterprises, especially those in the oil industry, have also shown renewed vigour.

There are no figures available on changes in the stock of FDI in the electricity industry. Undoubtedly, the purchase of State assets has played a greater part in increasing this than new investments. In the oil and gas industry, meanwhile, the cumulative investments of United States corporations in the countries of South America expanded by 63% between 1993 and 1997, from US$ 4.2 billion to US$ 6.8 billion, or approximately 10% of the regional total. This stock of foreign investment in the oil and gas industry will increase substantially if liberalization in Venezuela and Brazil attracts the investment expected and new gas projects come on stream.

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[12] Two gas pipelines are in operation between Argentina and Chile (Gas Andes and Magallanes), while between Argentina and Bolivia supplies continue to flow through the old pipeline. A large pipeline is being constructed between Bolivia and Brazil, while Uruguay will soon be supplied from Argentina by a consortium that won the supply contract in a competitive tendering process. Agreement has now been reached between Argentina and Brazil on a connection to Uruguaiana and extension of the gas pipeline as far as Porto Alegre.

Statistics on privatization revenue in the sector are not available for the whole decade either, but in 1997, for example, total privatization revenue was in excess of US$ 24 billion, and 62% of this was accounted for by energy firms (US$ 14.5 billion for electricity and US$ 745 million for gas).

Major foreign investors include Spanish firms (Endesa and Iberdrola), French ones (Electricité de France - EDF) and a number of pioneering companies from the United States (AES, Houston Industries Energy, Southern Electric, CEA, Dominium Energy and CMS Energy). Because of the scale of the resources involved, the buyers of privatized assets were consortia made up of foreign companies of different nationalities in partnership with powerful local groups.

A new trend that emerged in the 1990s was the formation of strategic alliances among European companies and between these and firms in the region. In Argentina, European- and Latin American-owned firms have established joint ventures of various kinds with EDF, Endesa of Spain, British Gas and Repsol, with annual sales of some US$ 2.4 billion. Corporations that are wholly European-owned have annual sales of some US$ 3.4 billion. Taken all together, these companies have annual turnover of some US$ 5.8 billion in petroleum, gas and electricity businesses.[13] In Colombia, too, alliances have been forged between European and Latin American firms, as in the case of the operations initially participated in by Endesa of Spain and Endesa and Enersis of Chile, involving investment of over US$ 2 billion in 1997. In Brazil, Latin American and European capital has been combined in partnerships of different kinds, with major consequences for distribution activities and, to a lesser extent, electricity generation and gas distribution.[14]

In the electricity industry, where vertical disintegration was one of the objectives of the reforms, there are signs of a trend towards renewed corporate concentration; one of the most striking acquisition operations in the regional electricity market was the 1999 purchase of a majority shareholding in Endesa of Chile and Enersis by Endesa of Spain.[15] The

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13 Another interesting feature of the dynamic process of European investment in Argentina is the level of merger and acquisition activity. In 1997, for example, mergers and acquisitions involving European firms accounted for oil and gas investments totalling US$ 1.2 billion.

14 These partnerships originally involved firms such as Electricidade de Portugal, Endesa of Spain, Endesa of Chile, Enersis, Edegel of Peru, Iberdrola of Spain, Chilectra of Chile, Electricité de France, Gas de España and Pluspetrol of Argentina. The different companies formed made acquisitions worth US$ 6.7 billion between 1996 and 1998.

15 The purchase of the interest in Enersis meant an investment of some US$ 1.2 billion, while the Endesa Chile operation cost another US$ 1.9 billion. Control of part of Enersis has given Endesa of Spain a stake in a holding company whose value is estimated at

same is occurring in the oil industry for reasons that have to do with market size. The takeover of the Argentine firm Yacimientos Petrolíferos Fiscales (YPF) by Repsol of Spain was another very significant event in the closing part of the decade. The Spanish company, which already had interests in oil refining in Peru and which operates in several countries in the region, sealed the purchase of 85% of YPF for some US$ 13 billion.[16]

By contrast with the electricity industry, where the share of State-owned enterprises has shrunk considerably, in the oil industry the public sector has continued to invest and to develop new corporate strategies. This has not been the case, of course, in Argentina, Bolivia and Peru, which opted to privatize the industry. State-owned enterprises adopted three major new strategies in the 1990s. One of these was internationalization through strategic alliances, as in the case of Petróleos Mexicanos (Pemex), which bought 3% of Repsol of Spain and 50% of the Deer Park refinery in Texas (United States) from Shell. The second strategy was one of internationalization in upstream segments through operations abroad, as in the cases of Petróleo Brasileiro (Petrobras) and Enap. The third strategy was to conclude regional strategic alliances, such as the one between YPF (Argentina), Petrobras (Brazil) and PDVSA (Venezuela) and the one between YPF and Enap (Chile). These new strategies are in addition to the existing one of combining internationalization with vertical integration through the development of activities in downstream segments of the industry abroad, as in the case of PDVSA, which is involved in fuel refining and distribution in the United States market (CITGO Petroleum Co., Unocal and UNO-VEN).

3. Drinking water and sanitation services

Governments have traditionally been heavily involved in the provision of drinking water and sanitation services, on the basis of institutional arrangements that differ little from one country to another. In most cases, these arrangements still entail a high level of government participation in both services supply and investment financing.

As drinking water is biologically essential to life, its supply has a very high social value. On the other hand, the relatively static nature of the technology involved and the high capital requirements and rigidity of

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some US$ 5 billion. This operation has given Spanish capital the opportunity to establish a firm foothold in the Argentine, Brazilian, Colombian and Peruvian markets.

16 This transaction gave Repsol control of 55% of Argentina's oil reserves, 60% of its refining capacity, 47% of its natural gas output and 48% of its retail petrol market, besides the interests held by YPF elsewhere in Latin America and in other parts of the world, either directly or through the Maxus group, which YPF took over three years ago.

demand which characterize the industry mean that profit levels are relatively low and it takes a long time to recoup investments, which in consequence are greatly affected by uncertainty. If the population's water needs are not met, the widespread social repercussions make them a highly sensitive political issue, which often means that short-term interests are given priority over the long-term issues which affect the supply and financing of services.

Over the past few years, however, efforts have been made to find new institutional arrangements. The need to enlist private financial, technological and management resources has combined with the restrictions facing the public sector in these areas to place the issue on many governments' agendas, especially in the case of the Latin American and Caribbean countries. Management models have been slow to change, however, partly because of the conditions of the industry itself, but also because of the need to formulate new ground rules that take into account the special features of these services and all the interests involved. In general terms, this is a public service industry that has natural monopoly characteristics and is run accordingly, and that has large externalities in the areas of public health and environmental pollution.

Regulation has to reconcile development of the industry with appropriate levels of profitability for investors and the protection of consumer rights. With these aims in view, regulatory agencies have been set up with a mandate to apply the following basic principles: open access, obligatory service supply, efficiency and optimum quality, fair pricing, rational use of and respect for the environment, security and continuity of supply and service coverage. Within this framework of principles, the issues that are sensitive to regulation have to do with freedom of network access, the scope for vertical integration by operators, the appropriate level of profitability, the promotion of productivity and the transfer of private-sector efficiency gains to users. In some cases, social equity criteria have also been introduced; in Colombia, for example, this has been done through the Solidarity and Guarantee Fund.

(a) Inadequacies of coverage

The development of the region's drinking water and sanitation networks was carried out from the 1940s to the 1980s, on the basis of a centralized public-sector management model. Priority was given to extending coverage during this period, even when that was at the expense of quality and the economic efficiency of the operating bodies. The crisis of the 1980s aggravated the situation, bringing further deterioration in the physical and institutional aspects of this management model. As a result, by the early 1990s the sector was suffering from underinvestment, poor-quality services and low levels of efficiency, suppliers were running financial and operating deficits, large percentages of consumption went unaccounted for and users had a poor payment culture.

The precarious state of these services in Latin America and the Caribbean can be appreciated from the figures shown in table V.5. All the indicators vary widely among countries, which reflects the diversity of situations coexisting in the region. The low averages that result, however, also show how widespread the shortcomings are. Only six countries (Chile, Costa Rica, Cuba, Guatemala, Panama and Trinidad and Tobago) provided drinking water access to practically their entire urban populations in the mid-1990s. In three countries (Argentina, Paraguay and Venezuela), less than 80% of the urban population was covered. There was generally a much lower level of access to drinking water in rural areas, the exceptions being Costa Rica and, to a lesser degree, Trinidad and Tobago, which had coverage of over 85%. Apart from these two countries, only five others (Cuba, the Dominican Republic, Honduras, Panama and Venezuela) provided access to at least half of their rural population. Nor was the situation very encouraging with regard to access to basic sanitation systems, again with the notable exception of Costa Rica. The coverage of these services averaged around two thirds of each country’s population, except in Haiti, Paraguay and Peru, where coverage was less than 50%. Lastly, the percentages of sewage treated before being released into the environment were extremely low, with figures of between 5% and 10%, depending on the country (Foster, 1996).

Estimates for the investment needed in the sector are thus very high. For the region as a whole, the World Bank estimated that sectoral investment of about US$ 12 billion a year would be needed over the period 1991-2000 to deal with the expansion and repairs that had become necessary after a decade of very low investment. As the investments made over the 1990s fell far short of those goals, huge amounts are still required. It was calculated in a recent paper (Global Water Partnership, 2000) that in the South American countries alone, if current deficiencies were to be remedied by the year 2010, a total of US$ 60 billion would need to have been invested by then. To put this estimate in perspective, total installed capital in the region’s water and sanitation sector was calculated at US$ 60 billion in 1993 (World Bank, 1995). This means that over the next ten years, investment equivalent to the region’s total installed capital in the sector is required for South America alone.

Table V.5
LATIN AMERICA AND THE CARIBBEAN: ACCESS TO DRINKING WATER AND SANITATION SERVICES
(Percentages)

Country	Access to drinking water				Access to adequate sanitation
	Percentage of urban population		Percentage of rural population		Percentage of total population
	1982	1995	1982	1995	1994-1995
Argentina	63	71	17	24	68
Bolivia	81	88	27	43	---
Brazil	---	80	52	28	83
Chile	97	99	22	47	71
Colombia	100	90	76	32	70
Costa Rica	100	100	82	99	99
Cuba	---	98	---	72	66
Ecuador	83	81	33	10	64
El Salvador	76	82	47	24	73
Guatemala	89	97	39	48	60
Haiti	59	38	32	39	24
Honduras	51	91	49	66	68
Jamaica	99	---	93	---	89
Mexico	95	---	50	---	70
Nicaragua	77	93	13	28	60
Panama	100	99	64	73	87
Paraguay	49	70	8	6	41
Peru	73	91	17	31	47
Dominican Republic	72	88	24	55	85
Trinidad and Tobago	100	100	93	88	79
Uruguay	100	---	100	---	61
Venezuela	88	79	65	79	59

Source: World Bank, *World Development Indicators*, Washington, D.C., CD-ROM version, 1999, and ECLAC, *The Equity Gap: Latin America, the Caribbean and the Social Summit* (LC/G.1945/Rev.1-P), Santiago, Chile, December 1997. United Nations publication, Sales No. E.97.II.G.11.

(b) Management models

During the 1990s, a variety of initiatives were undertaken in different countries to modify the public management model for water and sanitation services. The traditional model in the region had at least three undesirable characteristics. Firstly, the allocation of institutional responsibilities failed to make the necessary distinctions between the functions of policy-making for sectoral development, regulation and oversight of services, and actual service supply. In the case of the larger countries, there were also serious problems of jurisdiction between the national authorities and local governments. Lastly, investments and operating and maintenance costs were financed alike from the general budget, without the necessary distinctions being drawn between short- and long-term costs; pricing policies, furthermore, were such that only a small part of these costs was recovered.

Efforts have been made in the region to resolve some of these problems, to differing degrees. Brazil and Mexico are seeking to rationalize the public service system through regional decentralization and concentration of municipal services, in order to take advantage of economies of scale in service supply[17] and of the benefits resulting from vertical integration and horizontal disaggregation of supply units.[18] Similarly, progress has been made in establishing federal regulatory authorities with better defined functions and greater independence from policy-making bodies and operating companies. In Colombia, the emphasis has been on the creation of regionally-based joint ventures, the establishment of new pricing methodologies and novel combinations of cross-subsidies and solidarity funds (Fainboim and Rodríguez Restrepo, 2000).

One of the most far-reaching and successful transformations began in Chile in the late 1980s. During the 1990s, a new management model was gradually constructed on the basis of the following: (i) separation of preceptive and supervisory functions (a central government responsibility), sectoral regulation (carried out by the Sanitation Services Superintendency) and service supply; (ii) the granting of franchises to 13 regional public-sector enterprises organized as limited liability companies within a legal framework which treated public- and private-sector suppliers equally; (iii) a pricing system designed to reward companies for efficiency improvements and to give consumers clear signals about the value of services; and (iv) the implementation of a system of subsidies for lower-income users, financed out of the national budget. In the first half of the decade, investment in the sector quadrupled and there were great improvements in service quality and coverage, with the exception of sewage treatment (Corrales, 1996). In order to mobilize private-sector resources, particularly for sewage treatment, majority shareholdings in the regional companies of Santiago (EMOS) and Valparaíso (Esval) were sold to private investors in 1999,

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[17] Some Latin American case studies show that the cost per cubic metre of water supplied falls enormously as the number of users increases, and that water services are only financially viable for operating units supplying larger towns of 40,000 to 50,000 inhabitants (Yépez, 1990). Also, costs vary considerably with the size of systems. Thus, the cost of supplying groups of three people is US$ 1,600 in small systems and US$ 200 in large systems.

[18] The recent tendency has been to favour integration of all the activities associated with service supply in order to reduce the high transaction costs involved. The local nature of the service, however, and the very close involvement of local governments have led to an excessive degree of horizontal disaggregation, resulting in “operational minimalism” (Lorraín, 1995) which hinders the consolidation of efficient operating structures, as occurred in Mexico City prior to reform (Casasús, 1994).

and similar processes are under way for other regional companies (Essel and Essal).

A quite different approach was taken in Argentina, where the Government, with a view to generating market competition, staged an international auction as a result of which Aguas Argentinas, a private-sector consortium led by Lyonnaise des Eaux-Dumez, won the franchise to run the Buenos Aires drinking water and sewage system. The franchise contract was renegotiated in 1997, a development which led to much criticism regarding the original auction conditions and the regulatory framework, which on a number of occasions had allowed the company to take advantage of the political authorities through opportunistic actions (Alcázar, Abdala and Shirley, 2000). The same model was later extended to various provincial companies, with regulatory frameworks being created on a case-by-case basis. This procedure turned the regulatory authorities concerned into bodies responsible for monitoring and overseeing the respective operating companies' contracts and increased the risk that they would become captive (Corrales, 1998).

In fact, this experience has demonstrated various features of the industry which make it difficult for the general interest to be served by private-sector participation. These include: (i) the low relative profitability of the sector;[19] (ii) high levels of risk due to the social and political complexity of these services;[20] (iii) difficulties in even simulating competition, owing to the international concentration of operators;[21] (iv) serious imbalances in information access which hinder adequate regulation of services;[22] and (v) the possible conflict between the objective of

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[19] The amount of assets required to generate one unit of income per year is 10-12 in the water and sanitation industry, as compared to a figure of 3 for telecommunications, 3-4 in the electricity sector and 7 for toll motorway franchises (Haarmeyer, 1994).

[20] In some places, such as Cochabamba in Bolivia, services have been affected by social conflicts over pricing issues and the use of water sources once they have been privatized. This situation has led some experts to suggest that, in addition to the risks traditionally associated with private investment, consideration needs to be given to the risk of social disturbances stemming from regulatory and contractual frameworks and business practices that lack general acceptance in the place where they are applied.

[21] No more than six international corporations have shown an interest in participating in the auctions which have been initiated in Latin America, and many of them are interrelated, so the same competitors crop up again and again (Corrales, 1998).

[22] Imbalances in access to information are one of the greatest obstacles to adequate regulation, and they are particularly acute in this sector. Thus, there has been speculation that profound regulatory changes will be needed in Chile if privatization is to be carried through successfully. Private-sector companies will have more incentive than public-sector ones to behave opportunistically and take advantage of the current weaknesses of the Sanitation Services Superintendency (Shirley, Xu and Zuluaga, 2000). As against this, it has been argued that these imbalances may obscure the benefits brought by the operating company (Sappington, 1994).

obtaining revenue for the public treasury and that of ensuring that services can be sustained on the basis of reasonable user prices.[23]

In view of these constraints, various methods of private participation have been tried in the region, as can be seen from table V.6. Experience shows that most investments are financed by price increases and that private operators limit the use of their own or borrowed funds to specific areas where there is high short-term profitability (Rivera, 1997).

As a result, at the end of the decade there are still major challenges to be met if the financial resources needed to expand the quantity and enhance the quality of services are to be mobilized, and if the considerable regulatory deficit which is currently a feature of the sector is to be remedied.[24] In mature regulatory systems with a tradition of private-sector provision of public services (France, the United Kingdom and the United States), it is accepted that retrospective legislation and decisions can be used to remedy regulatory gaps and deficiencies, as long as the principle of reasonable profit is respected. Improving the regulatory frameworks of the region's countries is thus something that governments should attempt in the immediate future.[25]

[23] The Court of Audit in France recently prohibited the awarding of contracts in the water industry on the basis of payments to the authority granting the franchise. The rationale for this measure is that such a procedure, although beneficial to the public finances, is detrimental to users since such payments will be recouped through higher charges (Court of Audit of France, 1997).

[24] For a review of these problems, see ECLAC (2000a, Chapter 12).

[25] In the Maruba case (99.694), the Supreme Court of Justice of Argentina ruled in 1998 that the State's responsibility as franchiser does not come to an end when the franchise is granted, and that it therefore cannot be claimed that the State has surrendered its responsibility for overseeing pricing developments.

Table V.6
LATIN AMERICA AND THE CARIBBEAN: PRIVATE-SECTOR PARTICIPATION IN WATER AND SANITATION SERVICES AND ALLOCATION OF RESPONSIBILITIES

	Asset ownership	Operations and maintenance	Capital investment	Commercial risk	Contract duration	Examples
Service contract	Public	Public and private	Public	Public	1-2 years	Chile (Santiago): meters and billing
Management contract	Public	Private	Public	Public	3-5 years	
Leasing contract	Public	Private	Public	Shared	8-15 years	Trinidad and Tobago Venezuela (Monagas and Hidrolara)
Build-operate-transfer	Public	Private	Private	Private	20-30 years	Colombia (Tibitoc)
Concession of public facility	Public	Private	Private	Private	25-30 years	Argentina (Mendoza, treatment station)
Joint venture	Shared	Private	Private	Shared	Indefinite	Colombia (Bogotá, wastewater treatment)
Private company	Private	Private	Private	Private	Indefinite	Argentina (Buenos Aires and various provinces)
						Colombia (Barranquilla, Cartagena, Montería)
						Chile (Santiago and Valparaíso)

Source: Penelope J. Brooke Cowen, "The private sector and water sanitation. How to get started?", *Public Policy for the Private Sector*, No. 126, Washington, D.C., World Bank, 2000.

4. Transport

In the last 25 years there has been a marked transformation in the transport systems of many Latin American and Caribbean countries, with the most striking changes taking place in the 1990s. Although there have been substantial technological innovations, the most significant changes have taken place at the institutional level. These include, in particular, a marked decline in the role of the State as an operator of services and transport infrastructure, less protection for existing operating companies and the introduction of a new generation of economic regulation mechanisms to defend consumer interests and market competition.

(a) Highway franchises

The franchising of inter-city highways was a striking phenomenon of the 1990s, with major programmes being established in various countries of the region. Direct charging for the use of road infrastructure by means of a toll system, however, is only possible when there are relatively high traffic volumes. As a result, although private participation definitely contributes to the development of road infrastructure, public investment continues to be of primary importance in this subsector.

The introduction of private-sector road infrastructure management through the franchising system altered the dynamic of the sector significantly. On the one hand, it brought a change in the function of the private sector, with the traditional role of public works contractor giving way to that of public service franchisee, while on the other hand it made large amounts of funding available for road investment. The process has not been free of problems, however, many of them deriving from the difficulty of quantifying the different types of risk associated with such works and allocating them among the agents concerned, and from the initial weaknesses of the legal frameworks and public regulatory institutions governing these activities. These shortcomings gave rise to large contingent liabilities in the public sector, and in a number of cases these had to be made effective. A review of events over the decade reveals a long institutional learning process during which the delimitation of agents' responsibilities and the public transparency of the process were gradually improved.

The road network in Argentina totals almost 500,000 km, of which 38,800 form the national network, 181,000 the provincial network and 280,000 the municipal network. At the beginning of the 1990s, almost half of the road network was in a poor state and only 25% offered good driving conditions. In the late 1980s, the national network was opened up to private participation in different forms. Various franchise systems without tolls, financed from public funds,[26] were established to maintain 29,500 km of this network, while for the remaining 9,300 toll franchises were awarded. The network was divided into 20 road sections for franchising purposes, and the franchises, which were awarded in 1989-1990 for a fixed period of 12 years, were based on an index-linked flat-rate toll of US$ 1.5 / 100 km, a levy being payable to the tax authorities in some sections. There were no minimum traffic assurances or State guarantees. The franchises were basically intended to cover repair and maintenance work, without any extension of road capacity. This system was modified in 1991, when the franchise period was extended by one year, the investment plans agreed by the companies were amended, the basic tariff was reduced to US$ 1 / 100 km without index-linking, the levy was dropped and a monthly State subsidy was established for each road section. This comprehensive renegotiation of the contracts generated private investment obligations of some US$ 2 billion over the franchise period, while the State committed itself to providing operating subsidies of US$ 925 million, at the same time waiving levy income of US$ 475 million. Toll income during the franchise period was expected to total some US$ 3.6 billion. There were a number of further negotiating rounds, the latest being in 1998-1999, although no agreements have as yet been finalized. In accordance with current legislation, the basic principle underlying the inter-city franchises is that the risk is assumed by the private sector, without public guarantees. This principle has been only partially implemented in practice, however, as public subsidies have been paid each year since 1991 to compensate operators for the changes made when the tolls were adjusted (Delgado, 2000).

Chile has almost 80,000 km of road, of which only 15% was in good condition in 1990, as the amount invested over the 1980s covered barely a third of maintenance needs. Road use, on the other hand, has been found by a number of studies to have doubled between 1984 and 1994. As a result, the shortfall in inter-city investment was estimated at US$ 4.25 billion for the second half of the 1990s. In order to curb the deficit, public spending in this area was increased from US$ 300 million a year as of 1990 to US$ 800 million by 1999 and, most importantly, private investment was invited through a road franchising programme. This programme managed to mobilize more than US$ 3 billion over the decade, taking into account both work completed and work in progress on approximately

[26] These systems are as follows: 2,210 km are maintained under public works franchise contracts with State support; 12,827 km are covered by repair and maintenance contracts (CreMa) financed by the World Bank and the Government, and 14,463 km come under different public works schemes managed by Vialidad Nacional and financed out of the public budget (Delgado, 1998).

2,500 km of roads. The programme opted for repair, maintenance and widening of existing roads rather than for new road construction. The main franchise was for the north-south route, the backbone of the road network, which was divided into eight sections for franchising purposes. Although each section is an independent project, the auction process was designed in such a way as to produce uniform tariffs: US$ 2/100 km for the highway sections and US$ 0.5 for branch roads less than 100 km long. In order to unify the tariffs, different franchise periods were used, State levies were charged for the use of existing infrastructure and public subsidies were provided for the less profitable sections. The Government guaranteed a minimum profit level for each project on the basis of cost analyses by the franchising authority. Usually, up to 70% of the amount invested plus operating and maintenance costs were guaranteed, and currency risk insurance was provided to facilitate external financing. This experiment in public/private partnership went through successive stages of refinement. Although some contracts were renegotiated, this was done transparently and in an environment of mutual confidence among all the actors involved (Rufián, 2000a).

In Colombia, the outlook for the road network at the beginning of the 1990s was also rather discouraging. The average level of investment in the previous decade had been 0.8% of GDP, when the annual investment needed was estimated at between 2% and 3% of GDP. In 1992, a programme of road franchises was launched to complement the ambitious Plan Vial de Apertura or Road Liberalization Plan. In the first three years of the programme, 13 bidding rounds were held for road operating and maintenance franchises covering a total of 1,417 km of road, bringing in almost US$ 750 million. The haste with which the programme was launched and the franchises were awarded, however, meant that there was no time for proper studies on the expected level of demand and the investment needed. As a result, the National Institute of Roads had to offer government guarantees to minimize the risk to franchise-holders, and these turned into large fiscal payments as a result of construction cost overruns and lower than expected demand. Setting out from the National Development Plan 1994-1998, new principles were laid down with a view to making private participation in these works more structured and transparent and to clarifying and circumscribing State guarantees, by improving the regulatory and institutional framework.[27] This naturally involved the renegotiation of contracts, with changes in project specifications and implementation schedules. The new

[27] Three laws of particular significance were enacted on the basis of the 1991 Constitution: the Statute on Public Contracting (Law 80/1993), the Law on Transport (Law 105/1993) and the Law on Borrowing (Law 185/1995). In addition, the Interministerial Committee on Private Participation in Infrastructure was created and began to function.

franchising programme brought in towards the end of the decade is based on the concept of road corridors linking the main centres of production and consumption with seaports on the Atlantic and Pacific coasts. It involves a total of five projects encompassing 671 km of new construction, repairs to 1,900 km of existing roads and maintenance of 2,600 km. The project franchises will be awarded from 2000 onward (Rufián, 2000b).

In Mexico, the Federal Government had exclusive responsibility for federal highways until 1987. As the public budget for developing highway infrastructure was limited, private-sector involvement in improving the road system began to be sought in 1988. Accordingly, new toll motorways were planned with a view to providing a new backbone for the road system. Between 1987 and 1994, the Federal Government granted 52 franchises for the construction and modernization of 5,316 km of high-specification roads. Of this total, 29 franchises went to the private sector (3,364 km), another 19 to state governments (1,538 km) and 4 to public-sector financial institutions (414 km). Different factors were taken into account in granting the franchises, but the main criterion was the time it would take to recoup the investments. Provision was made for the Federal Government to extend the term of concessions up to the maximum allowed by law (30 years) if the assumptions contained in the franchise agreements proved incorrect. When the programme came to be implemented, applying the initial conditions stipulated proved difficult in practice, and the economic crisis of late 1994 also caused problems. Among the first setbacks to arise were cost overruns averaging 42%, demand for road use that ran at only two thirds of the level forecast, and changes in the programme's financial structure, which made short-term borrowing necessary. Thus, between 1993 and 1994, 10 of the original franchises had to be restructured for the first time. The 1994 crisis had devastating consequences for the programme, as its liabilities grew very rapidly in real terms. Some preliminary measures[28] were eventually followed by the adoption of the Programa de Rescate Carretero (Road Recovery Programme), under which 23 of the franchises awarded, with a total investment value of US$ 11.2 billion, were terminated ahead of time. A total of US$ 7.6 billion was paid out in compensation, and the remainder was borne by the franchise-holders as a capital loss. As the property associated with the franchises was returned to the Federal Government and compensation had to be paid, a financial vehicle was created (a trust fund of the National Bank for Public Works and Services) so that revenue from the repossessed infrastructure could be used to meet the liabilities contracted. In addition to receiving this income, the trust

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[28] In mid-1995, the road investment units programme was launched. This extended the franchise period to 30 years and rescheduled bank credits.

fund issued instruments of credit guaranteed by the Federal Government for US$ 3.6 billion, as well as entering into debt assignment arrangements with the banks and franchise-holders to the value of US$ 3.9 billion. This debt is contingent in nature for the Federal Government, contributions from the public budget being required only when the flows generated by the projects are insufficient to cover the payment obligations of the trust fund. It is estimated that the revenue from the motorways will be sufficient to cover operating and maintenance costs for the first few years, as well as the financial expenses deriving from repossession. An anticipated shortfall in 2001 will be covered by public funds. The fiscal cost of the repossession programme was estimated in 1997 at US$ 2.4 billion (Corta Fernández, 1999).[29]

Franchises were also granted for urban roads during this period, although on a lesser scale. In Argentina, work began in 1994 on four franchised motorways providing urban access to the city of Buenos Aires, with investments to date of US$ 1.5 billion. There are various conceptual differences between these franchises and those for inter-city roads, chiefly owing to the much higher daily traffic levels expected (Delgado, 2000). In Santiago, Chile, one large urban project has recently been franchised and another three are currently going through the franchising process. Altogether, these projects represent investment of more than US$ 1 billion (Rufián, 2000a).

(b) Rail service franchises

Traditionally, the countries have shown differing degrees of enthusiasm for private railway administration. In many cases in the region the railways began as private ventures, usually under government franchises. In the post-war period, however, most of them were nationalized, so that by 1990 there was only one privately-owned railway in public use in Latin America, and in the Caribbean there were none.[30]

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[29] This assessment was made for a time period of 50 years and was based on conservative assumptions: 3% growth in income, a real discount rate of 5.5% and minimal recovery in the first few months. This cost may be less if traffic responds favourably to the new pricing policy, with discounts of 17% for cars, 32% for buses and 35% to 40% for trucks.

[30] This one railway was operated by the Antofagasta (Chile) and Bolivia Railway Co. Ltd., whose shares were traded on the London stock market, and which was still strategically important because copper from Chuquicamata and much of Bolivia's foreign trade were carried on it.

This situation changed dramatically during the 1990s, so that towards the end of the decade there were 24 private railway companies operating in the region, with 7 more planned for the immediate future. As against this, fiscal constraints mean that railways which are not privatized face the threat of being left far behind and even virtually abandoned, as seems to be happening with the national networks of a number of countries in the region (Costa Rica, Ecuador, El Salvador, Nicaragua, Paraguay and Trinidad and Tobago).

The switch to private railway management has followed two main models. With the first, track management is separated from train operation, while with the second, infrastructure and services are franchised in their entirety. Colombia was a pioneer in applying the first model. In 1989, the Government handed responsibility for running trains on the network of the State railway company, Ferrovías, to a public-private joint venture, Sociedad Colombiana de Transporte Ferroviario, while retaining responsibility for infrastructure management. As the results were not good, the network was subsequently divided into an Atlantic section and a Pacific section, and these were franchised out in their entirety, with provision for operation by third parties if desired. Rail transport in Colombia, however, has still not revived, with the exception of the trains operated by the Drummond Mining Corporation (coal mining) in the north of the country and a steam train in Bogotá which is used for tourist services.

Peru applied a variation of this model whereby the different lines were franchised to operating companies, which are also members of a consortium that manages the infrastructure. Another variant on the same model was applied in the centre/south region of Chile, where Ferrocarriles del Estado operates passenger trains and charges a private cargo company, Ferrocarril del Pacífico, for the right to use the main lines. The difference in this case is that some secondary branch lines have been fully franchised to the latter company.

The second model, full franchising, is currently the most widespread in the region’s countries. Privatizations of this kind have taken place in Argentina, Bolivia, Brazil, Colombia (at a later stage), Guatemala and Mexico (except in Tehuantepec and in the Valle de México). With this model, franchises to manage railway infrastructure and operate services are awarded for periods of between 30 and 50 years. As a variant, railways may be sold off, as happened in the northern region of Chile with the company Ferronor.

Has railway privatization been successful? The answer is probably yes, although the achievements have been qualified (ECLAC, 1997a and 2000c). In general, traffic volumes have increased (albeit with wide variations from one case to another), government subsidies have decreased and labour productivity indices have risen. Success has not been total, however, because of the characteristics of the transport sector, where the competition that the railways face from road hauliers and from buses must be regarded as unfair, chiefly because the latter two do not pay the true costs of the infrastructure they use. Again, private firms do not always comply fully with the agreements they sign with governments, something that has been an issue in Argentina and Chile. In most cases the authorities prefer to reopen negotiations with the incumbents rather than reallocating their franchises or taking back responsibility for operating trains.

(c) Reforms in the urban transport system

Reforms in this area were aimed at increasing the quantity and improving the quality of public transport in order to alleviate the traffic congestion caused by rapid growth in the ownership and use of private vehicles. Although this phenomenon did not start in the 1990s, the situation has certainly worsened recently, for various reasons. These include the reduction of import tariffs, infrastructure deficiencies and the slowness with which local and national authorities reacted to the sudden expansion in the number of vehicles.

In several of the region's countries, many middle-class and some working-class families were able to purchase a car for the first time, usually second-hand. Improved economic circumstances, lower tariffs and some tax cuts helped make this possible. In addition, the increase in family incomes led to rises in the quantity and quality of cars owned. In combination, these events contributed to a real explosion in the number of vehicles.[31]

In view of this situation, a number of countries began to deregulate public transport and privatize services. In the late 1980s, large segments of public urban transport services in some countries were operated by national or municipal governments. Ten years later, almost all bus services were operated by private companies. In the case of suburban and underground train operating functions, privatization began in Buenos Aires (Argentina) in the middle of the decade and in Rio de Janeiro (Brazil) towards its close. In the first case, this brought quality improvements and rising demand for services. Although the experiment was successful from the social point of view, the service subsidies provided by the Government

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[31] In Santiago, Chile, for example, the increase in the number of cars per family resulting from a 1% rise in family income is 0.0039 in Vitcura (a high-income commune), 0.0033 in Santiago (a middle-income commune) and 0.0017 in La Pintana (a low-income commune). See ECLAC (1997b).

remained at levels similar to those seen when the State was responsible for operating the trains.[32]

Where bus services are concerned, there is little left to privatize. At the beginning of the decade, the Empresa Nacional de Transportes Urbanos (Enatru), which provided services in four cities in Peru, transferred its assets to private companies, most of them created by its employees. In São Paulo (Brazil), the Companhia Municipal de Transportes Coletivos franchised all the services which it had been operating itself to private companies. Towards the end of the decade, the State-owned Ruta 1000 withdrew from Mexico City and all non-electric public transport services returned to the private sector. In general, the privatization of urban public transport services was successful in terms of the technical efficiency and productivity of the resources used.

Fares, however, increased. In the late 1980s, the cost of a journey in cities such as Buenos Aires, Lima, Mexico City and São Paulo was between US$ 0.07 and US$ 0.15; ten years later it had risen to between US$ 0.3 and US$ 0.6. State enterprises usually received subsidies which were intended to benefit lower-income groups, but were often used to mask their own inefficiency. In the late 1980s, for example, Ruta 100 was incapable of operating more than about 42% of the buses it owned (ECLAC, 1992). Fare rises were due to higher operating costs, the use of more appropriate but costlier vehicles, the extension of routes, stricter controls on drivers' working conditions and a decline in the productivity of drivers and buses because of greater traffic congestion.

The deregulation of public transport in Peru led to a substantial increase in the number of vehicles, from about 10,000 in 1989 to somewhere between 48,000 and 60,000 in 1999. Chile, which deregulated ten years earlier, went through a similar process. Although there were never more than 15,000 buses operating in Santiago, in 1990 the authorities decided to regulate transport in the city and put out a network of routes to competitive tender. As a result of this measure, the city's buses were modernized, their number dropped to 9,000, and fares rose moderately.

In Lima (Peru), an attempt was also made to regulate bus services, albeit not as completely as in Santiago. In medium-sized towns in Chile and Peru, however, deregulation was not followed by the introduction of new regulations, a fact which seems to imply that deregulation was more successful there.

In the 1990s, inter-city passenger transport was also deregulated in some countries. The results were fairly good in Argentina, but in Peru,

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[32] About US$ 1 million per day. See Jane's Information Group Ltd. (1999).

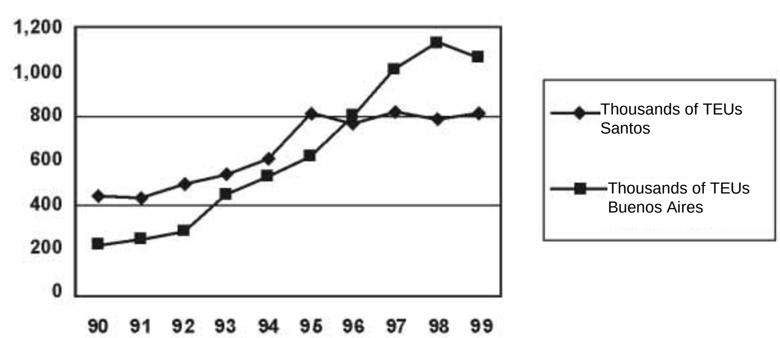
owing to the lower level of business professionalism, they were not very encouraging, particularly with regard to safety. In a number of countries, especially Brazil, this activity is still heavily regulated.

(d) Ports and maritime transport

Until the 1980s, the region's ports were typically managed by the public sector and their workers were employed directly by the port authority. In the early 1980s, cargo handling in Chilean ports began to be carried out by private companies that competed among themselves. The result was large efficiency improvements and reductions in the investment needed in machinery and equipment, but this was an exceptional case (Burkhalter, 1999 and ECLAC, 1998a).

In the middle of the decade, large ports in Argentina and Panama were privatized, and productivity improved substantially as a result. The port of Buenos Aires (Argentina) thus managed to displace Santos (Brazil), which was then still run by the State, as the largest handler of containers in South America (see figure V.2). By the end of the decade, large ports in the Bahamas, Brazil, Chile, Colombia, Jamaica and Mexico had been privatized, and the process was beginning in Peru.

Figure V.2
MOVEMENT OF CONTAINERS



Source: Data up to and including 1996 provided by Martin Sgut, consultant. Data from 1997 to 1999 from ECLAC, Maritime Profile of Latin America and the Caribbean (LC/W.001) (www.eclac.cl/transporte/perfil/indexe.html), 24 August 2000.

Note: Santos includes Companhia Siderúrgica Paulista (Cosipa); Buenos Aires includes Exolgán.

TEU: Twenty foot equivalent unit.

In the case of large ports, separate operating franchises are usually awarded for different terminals with a view to ensuring a reasonable level of competition, so that the cost reductions resulting from higher productivity will be passed on to importers and exporters. The actual infrastructure continues to belong to the State, although in some notable cases ports with privatized services compete with others built by private firms (Hoffmann, 1999).

Within a period of barely ten years, Latin American ports have ceased to be a byword for inefficiency, and some have even become models of efficiency. This is particularly true of the port of Buenos Aires where, between 1991 and 1995, the cost per tonne of container imports dropped by 73%, average ship turnaround time was reduced by 40%, the amount of cargo handled rose by 50%, the number of container units increased by 80% and labour productivity grew by 275%.

In the case of sea transportation by regular shipping lines, there was a continuing trend for local companies to be liquidated, merged with other firms or taken over by multinational corporations. This reduction in the number of Latin American companies was more than compensated for by the increase in the number of foreign ones active in the region, to the extent that the number of shipping lines operating in Latin America and the Caribbean increased slightly (ECLAC, 1998b). Regional shipping lines were used less, but there was a marked reduction in freight costs, helped by the increase in economic activity and the greater vigour of regional economic integration. Competition between shipping lines ensured that cost reductions resulted in reduced freight charges.

In previous decades, the aim of governments had been to maximize the freight market share of domestic companies by reserving cargo for flag carriers of the exporting and importing countries. The events of the 1990s show that the main objective of governments is now to reduce costs and improve efficiency.

(e) Institutional aspects

In the first experiments with reform in this sector, market deregulation and the privatization of State companies went ahead without sufficient attention being given to competitiveness, to the needs of less privileged social groups and to externalities.

In the 1990s, by contrast, there was more emphasis on these areas. Even the privatization models used were designed with a view to preserving competition as, for example, in the case of the Peruvian railways. The model initially proposed would have obliged the mining companies to use the services of a single rail operator, or to send their output to port in trucks. The model finally applied allows these companies to operate their own trains if they consider the freight charges of the railway company to be excessive.

The creation of regulatory bodies to reinforce antimonopoly laws in the transport sector points in the same direction. One pioneering effort was the National Commission for Automotive Transport, set up in Argentina in 1993, which later became the National Commission in charge of Transport Regulation. Similar bodies were subsequently created in Bolivia, Guatemala, Peru and other countries. These bodies have managed, in some cases, to deal successfully with anticompetitive practices. In Bolivia, for example, the Empresa Ferroviaria Oriental lowered its freight charges for transporting soya at the insistence of the Transport Superintendency.

Another area in which there were important institutional initiatives was the development of multimodal transport. Three international agreements were adopted on this subject between 1992 and 1994, the first in the Andean Community, a later one in MERCOSUR and the last among the ten countries participating in the Conference of South American Ministers of Transport, Communications and Public Works. The Western Hemisphere Transport Initiative, undertaken in the context of the Summit of the Americas, marks the beginning of a continent-wide approach to the development of intermodal systems. In response, business sectors have increased the range of integrated services available by introducing modern operations management systems and by investing heavily in port container terminals and inland freight transfer stations.

Although no complete, comprehensive survey has yet been carried out, the figures in table V.7 show that in most countries the prices of transport services have decreased on the whole, while consumption of these services as a share of output has risen. These trends can no doubt be explained in part by factors such as technological changes and, in some cases, the reduction of subsidies. Productivity improvements, however, have also played their part in reducing the cost and increasing the consumption of this sector’s services, in all their variety and range.

Table V.7
INDICES OF CHANGES IN TRANSPORT SERVICES CONSUMPTION AND REAL PRICES, SELECTED COUNTRIES, 1990-1999
(Percentage change)

Country	Growth in GDP 1990-1999	Growth in consumption of transport services, 1990-1999	Real change in market prices for transport services, 1990-1999
Bolivia	46.1	73.2	-12.1
Chile	64.9	82.9	-7.9
Colombia [a]	34.3	39.1	19.2
Costa Rica	35.7	77.4	-6.3
Guyana	55.2	62.5	-5.2
Mexico	22.8	41.6	4.9
Peru	34.6	43.4	-19.7
Uruguay [a]	35.1	88.2	-20.1

Source: Own calculations, based on national figures published in ECLAC*, Statistical Yearbook for Latin America and the Caribbean, 2001 Edition*, Santiago, Chile. United Nations publication, Sales No. E.99.II.G.1.

[a] From 1990 to 1998.
Note: The percentage changes refers to the transport, storage and communications sector.

Chapter VI

The social sectors

Social development in the 1990s was characterized by consolidation of the demographic transition process, gradual population ageing, an inadequate level of employment creation, moderate reductions in poverty and increases in inequality in various countries, progress with regard to gender equity and a higher level of female participation in the labour market, a recovery in social investment, and implementation of important reforms to social policies and sectors.

With regard to the population structure of the region, the demographic transition process continued, albeit with variations among countries and among the different social strata within them. Overall, the main features were an increase in the population of both the elderly and adults of working age, a decline in the fertility rate and a decrease in economic dependency rates, the two latter phenomena being reinforced by the increase in women's labour force participation. These changes were accompanied by an increase in life expectancy and a reduction in the infant mortality rate. Faster growth in the working-age population and economically active population than in the total population represented a demographic "bonus" of which the region failed, however, to take advantage, mainly because of its poor job creation record, particularly where high-productivity employment is concerned. The implications of this growth pattern are very important for future social policies, in view of the changes they will bring in the demand for health and social security services, as well as in the type and amount of employment needed.

Renewed economic growth led to a rise in employment, but this was not sufficient to absorb the growing economically active population, so unemployment and informal employment increased in the region. The strength of this tendency differed between countries, but overall it was especially critical in the South American countries (with the exception of Chile). The labour market was favourable for those with a university education, whose salaries increased in relative terms. This was not conducive to a positive trend in income distribution, but rather helped to maintain the extremely high levels of economic inequality found in most countries. This bias also forestalled any significant reduction in poverty levels.

Between 1990 and 1999, poverty fell to levels similar to those seen in the region in the early 1980s (35%), although population growth meant that the poor did not decrease in number. Economic growth was not strong enough to produce a more positive trend in the income levels of the poorest, educational requirements rose, and the general increase in social investment in the region had not led to greater equality of opportunity by the end of the period, owing to the time such investment takes to feed through. Systems to provide social protection at times of crisis and direct transfers to the poor are not yet widespread in the region. Although there was a reduction in poverty rates in both rural and urban areas, the absolute numbers living in poverty remained practically unchanged in the former, and increased in the latter. The progress made in controlling inflation, especially hyperinflation, was favourable to poverty reduction. The structure of the main factors determining poverty levels (education, employment, property ownership and household size) and their distribution did not change significantly, which means that the region has not yet escaped from the social patterns that perpetuate poverty across the generations. The recent crisis also interrupted the process of poverty reduction, especially in South America, so that the number of people living in poverty increased by approximately 20 million.

Significant progress was made in the region with regard to gender equity. Access to the education system and health services became more equal, and women's labour force participation rose, while at the same time all the countries made significant progress with the institutions responsible for women's policies and programmes and with legislation to protect women's rights and to promote greater participation and recognition for them in social life. More still needs to be done, however, especially with regard to women living in poverty.

Public social spending developed very positively over the decade, increasing by 2.7 percentage points of GDP, so that in many cases it exceeded the levels seen at the beginning of the 1980s. Practically all the countries in the region made great efforts to raise the level of this expenditure as a percentage of output. While the situation varied among countries, this increase was generally driven both by the recovery of public revenue as a result of higher growth and by the priority given to social expenditure in the public budget. Spending growth in this area was particularly high in countries with medium per capita income levels. Also striking was the rise in the share of social expenditure going on education and health, areas which are vital for the development of human capital and for the prospects of achieving poverty reduction and equity goals.

Lastly, the 1990s were marked by intense efforts to reform social policy and to reorganize the different sectors with which it is concerned. Reforms were particularly comprehensive and far-reaching in the health and pensions sectors, but they also encompassed education, housing and social welfare. In general, the changes aimed to improve the efficiency of public spending through the use of tools for establishing eligibility, demand subsidies, decentralization of public management, the introduction of competition and regulation mechanisms, the separation and delimitation of the different public administration functions (finance, management, provision, oversight) and the participation of private agents in the management and provision of services. Progress with regard to the coverage, quality and comprehensiveness of social protection has not yet been seen across the board, although increased expenditure and improved management in this area does seem to give grounds for positive expectations.

1. The region-wide demographic transition and the failure to take advantage of the demographic bonus

The demographic changes that occurred in the Latin American and Caribbean countries in the second half of the twentieth century —a reflection of the economic, social and cultural changes experienced by the region— manifested themselves in a transition[1] to lower and lower levels of fertility and mortality. This process continued over the 1990s, spreading to all countries.

In the region as a whole, the average number of children per woman has declined from 3.4 to 2.7, life expectancy at birth has increased from 66 to 69, the infant mortality rate has decreased from 48 to 36 per thousand and the total population growth rate has dropped from 2% to

[1] The demographic transition is defined as a process in which the population shifts from high to low fertility and mortality rates.

1.6% (United Nations, 1999b). Although these trends are common to all the countries, demographic transition patterns have specific national features determined by when the process began, the speed of changes in biodemographic variables and the impact of socio-economic and cultural factors (see table VI.1). These specific features are reflected in different rates of population growth and in different configurations of the population age structure. Thus, in the five-year period 1995-2000, the fertility rate remained high in seven countries (with an average of 4 to 5 children per woman), while in three countries the rate was below the population replacement level (2.1 children per woman); the rest had patterns similar to the regional average.

If current assumptions concerning the future fertility rate in Latin America and the Caribbean prove accurate, it will be at or close to the replacement level in most countries by 2020-2025. Those countries that have high life expectancy at birth and low fertility rates, however, still have high annual average population growth rates compared to developed countries with similar population parameters.[2]

Although differences in fertility and mortality rates among groups of countries have combined with varying levels of international migration to create different population age profiles, one feature that is common to all the countries is the trend towards ageing. This is due to rising life expectancy (both at birth and after the age of 60) and, most of all, to a decline in the number of children. Over the decade, the results of this trend have been: relative stabilization of the number of births at an annual average of 11.6 million; declines in the growth rates of the population aged under 15 and of the working-age population (0.4% and 2.2%, respectively, compared to 1% and 2.5% in the 1980s); and an increase in the growth rate of the population aged 60 and over to 2.8% (up from 2.5% in the 1980s), a figure which was almost twice as high as the rate for the population as a whole (1.6%) and seven times as high as the rate for the population aged under 15. Although this trend towards population ageing occurred throughout the region, it was stronger in countries at the advanced transition state, where under-15s now account for less than 30% of the total population and over-60s for 13%, whereas in countries at the incipient and moderate transition stages, the younger age group represents over 40% of the population and the elderly account for no more than 7% (see table VI.2). The distinctive feature of the 1990s was the

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[2] This apparent paradox is the result of “demographic inertia”, a term which refers to the effect on population growth of the age distribution at the time when the sustained decline in the fertility rate begins. Thus, from a certain point onward, population growth is influenced not only by changes in fertility, mortality and migration rates, but also by the age structure of the population when the changes begin.

increase in the number of elderly people who were not working in relation to the number working, a trend which is expected to accelerate. Since health expenditure is much higher in old age, as is the income needed to live for more years after withdrawing from economic activity, this trend is a huge challenge to social security and welfare systems.

Another important feature of regional population growth in the 1990s was the persistence of inequalities in the sociodemographic behaviour of the different social strata. On average, the poorest groups in society had more children and a higher infant mortality rate than the groups that were not poor.[3] The poorer strata are further from facing serious ageing problems, but it is among these that the highest proportion of people work in the informal sector and therefore do not contribute to social security, so that the only benefits they receive are from welfare schemes. There are also marked disparities by area of residence. The highest fertility and mortality rates are found in rural areas, where large proportions of the population are campesinos and ethnic groups living in what are clearly disadvantaged conditions. Of the 12 countries for which comparable information is available, the gap between the global fertility rates of urban and rural areas is smallest in Costa Rica, at 35%; in all other cases the disparity is more than 50% (ECLAC, 1998d).

[3] For example, the fertility rates of women without education are more than twice as high as those of women with secondary or higher education, the average number of children being 6.5 and 2.7, respectively, in Bolivia, 7.1 and 1.8 in Guatemala, 6.2 and 2.1 in Ecuador, 4.1 and 2.4 in Mexico and 5.0 and 1.5 in Brazil. Infant mortality rates likewise differ sharply between the two groups, the respective rates being 122 and 38 per thousand in Bolivia, 70 and 23 in Guatemala, 79 and 11 in Ecuador, 48 and 20 in Mexico and 93 and 28 in Brazil (ECLAC / CELADE, 1998b).

Table VI.1
LATIN AMERICA AND THE CARIBBEAN: POPULATION INDICATORS BY STAGE IN THE DEMOGRAPHIC TRANSITION

Time period and indicators	Latin America and the Caribbean	Stage in the demographic transition			
		Incipient[a]	Moderate[b]	Full[c]	Advanced[d]
1990-1995					
Births per year (thousands)	11 572	493	1 037	8 628	1 390
Total fertility rate (children per woman)	3.0	4.8	4.8	2.9	2.6
Life expectancy at birth (years)	68.1	56.4	65.7	68.1	73.1
Infant mortality rate (per 1,000 births)	40.0	75.0	46.0	40.6	19.2
Population growth rate (percentage)	1.7	2.1	2.6	1.7	1.2
Growth rate of WAP[e] (percentage)	2.4	2.4	3.1	2.5	1.5
Growth rate of EAP[f] (percentage)	2.7	2.6	3.5	2.7	2.0
1995-2000					
Births per year (thousands)	11 554	514	1 101	8 540	1 374
Total fertility rate (children per woman)	2.7	4.4	4.3	2.6	2.4
Life expectancy at birth (years)	69.2	57.5	67.4	69.3	74.0
Infant mortality rate (per 1,000 births)	36.0	67.0	40.3	35.9	17.8
Population growth rate (percentage)	1.6	2.0	2.6	1.6	1.1
Growth rate of WAP[e] (percentage)	2.1	2.6	3.2	2.2	0.9
Growth rate of EAP[f] (percentage)	2.5	2.8	3.5	2.6	1.8

Source: ECLAC, Population Division - Latin American and Caribbean Demographic Centre (CELADE), current population estimates and projections, and United Nations, *World Population Prospects. The 1998 Revision. Volume I Comprehensive Tables* (ST/ESA/SER.A/177), New York, 1999. United Nations publication, Sales No. E.99.XIII.9.

[a] Includes Bolivia and Haiti.
[b] Includes Belize, El Salvador, Guatemala, Honduras, Nicaragua and Paraguay.
[c] Includes Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, Guyana, Mexico, Panama, Peru, Suriname and Venezuela.
[d] Includes Argentina, Bahamas, Barbados, Chile, Cuba, French Antilles, Jamaica, Netherlands Antilles, Puerto Rico, Trinidad and Tobago and Uruguay.
[e] Working-age population (15 to 59 years old).
[f] Economically active population aged 10 and over (Latin America only).

Table VI.2

LATIN AMERICA AND THE CARIBBEAN: AGE STRUCTURE INDICATORS, BY STAGES IN THE DEMOGRAPHIC TRANSITION

Years and indicators over the decade	Latin America and the Caribbean		Stage in the demographic transition							
			Incipient[a]		Moderate[b]		Full[c]		Advanced[d]	
1990	Thousands of people	%	Thousands of people	%	Thousands of people	%	Thousands of people	%	Thousands of people	%
Total population	439 607	100.0	13 489	100.0	26 971	100.0	331 224	100.0	67 923	100.0
0-14 years	158 358	36.0	5 779	42.8	11 941	44.3	120 891	36.5	19 747	29.1
15-59 years	250 036	56.9	6 928	51.4	13 624	50.5	189 412	57.2	40 072	59.0
60 years and over	31 213	7.1	782	5.8	1 406	5.2	20 921	6.3	8 104	11.9
EAP[e]	167 485	38.1	5 020	37.2	8 742	32.4	130 082	39.3	23 641	34.8
DDI[f]		75.8		94.7		98.0		74.9		69.5
1995										
Total population	479 019	100.0	14 974	100.0	30 766	100.0	361 116	100.0	72 163	100.0
0-14 years	161 569	33.7	6 276	41.9	13 185	42.9	122 077	33.8	20 031	27.8
15-59 years	281 811	58.8	7 830	52.3	15 921	51.7	214 823	59.5	43 237	59.9
60 years and over	35 639	7.4	868	5.8	1 660	5.4	24 216	6.7	8 895	12.3
EAP[e]	191 513	40.0	5 731	38.3	10 395	33.8	149 243	41.3	26 144	36.2
DDI[f]		70.0		91.2		93.2		68.1		66.9
2000										
Total population	518 128	100.0	16 552	100.0	34 957	100.0	390 446	100.0	76 173	100.0
0-14 years	164 417	31.7	6 645	40.1	14 335	41.0	122 141	31.3	21 296	28.0
15-59 years	312 584	60.3	8 938	54.0	18 685	53.5	239 779	61.4	45 182	59.3
60 years and over	41 127	7.9	969	5.9	1 937	5.5	28 526	7.3	9 695	12.7
EAP[e]	217 240	41.9	6 604	39.9	12 413	35.5	169 653	43.5	28 570	37.5
DDI[f]		65.8		85.2		87.1		62.8		68.6

Source: ECLAC, Population Division - Latin American and Caribbean Demographic Centre (CELADE), current population estimates and projections, and United Nations, *World Population Prospects. The 1998 Revision. Volume I Comprehensive Tables* (ST/ESA/SER.A/177), New York, 1999. United Nations publication, Sales No. E.99.XIII.9.

[a] Includes Bolivia and Haiti.
[b] Includes Belize, El Salvador, Guatemala, Honduras, Nicaragua and Paraguay.
[c] Includes Brazil, Colombia, Costa Rica, Dominican Republic, Ecuador, Guyana, Mexico, Panama, Peru, Suriname and Venezuela.
[d] Includes Argentina, Bahamas, Barbados, Chile, Cuba, French Antilles, Jamaica, Netherlands Antilles, Puerto Rico, Trinidad and Tobago and Uruguay.
[e] Economically active population aged 10 and over (Latin America only).
[f] Demographic dependency index.

The decline in fertility, and, consequently, in the growth rate of the working-age population, which is consolidating the demographic transition process across the region, has led to a reduction in the economic dependency rate, a trend that is being reinforced by a higher level of female participation in economic activity. This offers the countries of the region a potential “bonus” in the form of an opportunity to increase their productive capacity, and thus improve the living conditions of current and future generations. The effect of the demographic bonus on actual growth in the labour supply depends on what proportion of people of working age, particularly women, participate in economic activity. In the 1990s, the low level of job creation, and the extent to which new employment was concentrated in low-productivity occupations, partly accounted for the inadequate productivity growth seen. This situation was not only serious in itself, but represented a wasted opportunity. The region failed to capitalize on the advantages offered by the stage in the demographic transition it had then reached, in which the working-age population was growing more rapidly than the total population, albeit at decreasing rates, and dependency rates were falling. While population growth decreased from 2.7% a year over the period 1950-1980 to 1.7% a year in the 1990s, the growth rate of the economically active population remained at 2.6% (see table VI.3). The low number and informal nature of the jobs created meant that this demographic bonus was not taken advantage of.

Table VI.3
THE DEMOGRAPHIC BONUS: POPULATION GROWTH BY AGE GROUP

Population group	1950-1980	1980-1990	1990-2000	2000-2010
Total population	2.67	2.01	1.67	1.39
Working-age population	2.69	2.59	2.29	1.82
Economically active population	2.60	2.80	2.60	2.20
Dependent population	2.68	1.22	0.69	0.61
Population aged under 15	2.58	1.06	0.34	0.11
Population aged over 65	3.59	2.57	3.08	3.11

Source: ECLAC, estimates of the Population Division - Latin American and Caribbean Demographic Centre (CELADE).

There has also been a general decline in labour force participation among the population aged under 20, particularly men. This may be a positive sign, indicating that the expansion of education systems is offering young people the opportunity to stay at school longer (ECLAC/CELADE, 1999b).

Lastly, migration, undertaken in response to socio-economic factors, also affects the balance of population composition and labour force participation between urban and rural areas. From the beginning to the end of the decade, annual growth in the urban economically active population fell from 3.5% to rates close to 3%. Growth in the rural economically active population, meanwhile, was much slower on average (less than 1% a year). In both urban and rural areas, the decline in the growth rates of the economically active population would have been greater if there had not been an increase in female participation in economic activities outside the home, a phenomenon that parallels the decline in fertility rates. In fact, two simultaneous and long-standing processes were going on: ageing, and growth in the share of the working-age population accounted for by women. These trends were more marked in urban areas than in rural ones (ECLAC / CELADE, 1999b).

As was noted earlier, the growth of the working-age population slowed over the 1990s owing to the demographic trends described. The labour supply continued to increase more rapidly than the working-age population, however, since the global participation rate continued to rise by 0.2 percentage points per year, as it had done in the 1980s. Thus, in the region as a whole, the economically active population grew at an annual rate of 2.6%, which was slightly lower than the 2.8% seen in the previous decade.

2. Employment: low growth, the shift to services and the increase in informal employment

Over the decade, insufficient jobs were created to absorb the increase in the working-age population. This led to an increase in open unemployment, to changes in the sectoral composition of employment and to a relative increase in informal employment.

The main cause of the rise in the participation rate was the growing number of women entering the labour market. Between 1991 and 1999, the male participation rate remained stable at about 73%, while the female rate rose by 4 percentage points to over 41%. As opportunities for participating in the labour market are very unequal in different socio-economic strata, however, the proportion of women working is substantially lower in poorer households than in richer ones (see table VI.4). Women from the lower-income strata wishing to enter the labour market have more disincentives: higher opportunity costs (childcare and housework), less benefits (lower wages) and greater restrictions (responsibility for the home). The facilities they need if they are to reconcile their roles in the home and the labour market (day-care centres, kindergartens, schools and public safety) are rarely available, so women from these homes are poorly represented in the labour market, especially in formal employment. The lack of support service networks means that progress towards gender equity is retarded, the income gap between households from different social strata is not narrowed and large sectors of the population are excluded from the benefits of more modern social policies, as they end up outside social security systems and thus remain dependent on public social welfare schemes.

Table VI.4
LATIN AMERICA (12 COUNTRIES): PERCENTAGE OF WOMEN OF ACTIVE AGE WHO ARE EMPLOYED, BY HOUSEHOLD INCOME LEVEL, URBAN AREAS, 1990 AND 1997

Quartile	Argentina		Bolivia		Brazil		Chile		Colombia		Costa Rica	
	1990	1997	1990	1997	1990	1997	1990	1997	1990	1997	1990	1997
Total	35.5	36.6	40.6	46.0	44.5	44.5	28.0	35.2	37.7	41.2	36.4	38.5
I	17.4	19.6	24.2	35.1	32.9	35.6	16.7	19.2	25.6	26.5	21.6	25.7
II	27.3	29.1	40.3	45.7	41.1	44.1	27.2	32.3	35.0	38.7	31.9	32.4
VI	42.7	43.1	46.9	49.7	46.5	47.9	36.2	40.6	41.1	46.3	43.8	43.4
IV	57.8	58.3	51.4	54.3	50.1	51.6	44.1	50.5	50.1	55.6	49.3	54.8
IV / I	3.24	2.98	2.12	1.55	1.52	1.45	2.63	2.63	1.96	2.10	2.28	2.13

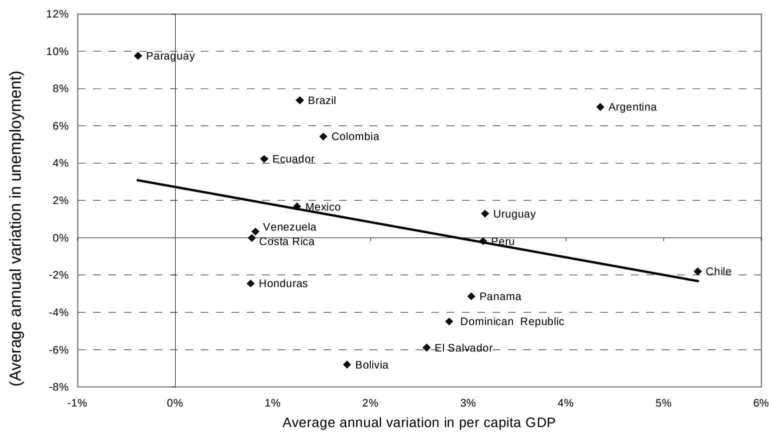
Quartile	Ecuador		Honduras		Mexico		Panama		Uruguay		Venezuela	
	1990	1997	1990	1997	1990	1997	1990	1997	1990	1997	1990	1997
Total	38.1	41.6	40.8	46.9	34.7	39.0	31.8	37.6	38.4	39.5	31.4	39.6
I	24.0	28.6	31.1	37.9	25.1	30.5	16.0	20.7	30.1	32.7	15.2	23.3
II	33.9	37.2	37.1	44.0	33.2	34.9	25.3	32.2	38.0	38.8	24.9	36.8
VI	42.6	45.1	38.8	49.5	40.9	44.4	39.8	44.3	43.0	42.1	37.0	45.7
IV	53.8	59.2	55.5	56.9	40.8	49.3	49.4	55.7	44.0	46.8	51.9	54.3
IV / I	2.24	2.07	1.78	1.50	1.63	1.62	3.09	2.69	1.46	1.43	3.41	2.33

Source: ECLAC, on the basis of official figures from the countries.

Between 1990 and 1999, the simple average of the employment rate in 12 countries also rose by almost 0.2 percentage points a year, although a low rate of job creation in Brazil meant that the weighted average was slightly lower. This level of relative employment growth meant that the number of people in work rose by an average of just over 2% annually, and thus by less than the economically active population. As a result, unemployment increased in the region as a whole, especially from the mid-1990s onward. This trend was largely contributed to by rising joblessness in Argentina and Mexico and subsequently, towards the end of the decade, in Brazil.

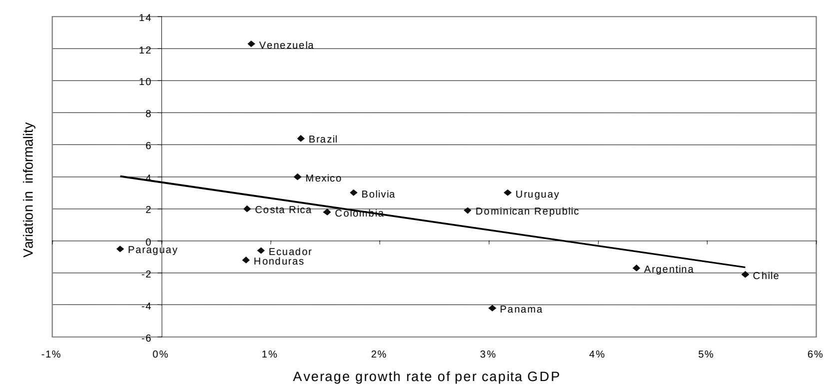
Over the decade, regional output grew more rapidly (3.2%) than the working-age population (2.5%), but net job creation (2.2%) was lower than this, so that the level of open unemployment rose. These overall averages mask large disparities across the region, the determining factor being the role of the informal sector in labour market adjustment (see figures VI.1 and VI.2).

Figure VI.1
LATIN AMERICA: PER CAPITA GDP GROWTH AND UNEMPLOYMENT, 1990s



Source: ECLAC, on the basis of official figures from the countries.

Figure VI.2
INFORMAL ECONOMIC ACTIVITY AND PER CAPITA GDP GROWTH, 1990s



Source: ECLAC, on the basis of official figures from the countries.

With regard to job creation by employment category, wage employment increased at a similar rate to total employment, although the weighted averages of the two rates were closer than the median averages (see table VI.5). The fact that the share of waged employment in the total did not increase illustrates the weakness of labour demand. Public-sector employment grew little, owing to privatization and restrictive fiscal policies, while waged employment in the private sector grew more rapidly in microenterprises than in the rest of the sector (ILO, 1999).

Table VI.5
LATIN AMERICA (17 COUNTRIES): JOB CREATION BY EMPLOYMENT CATEGORY, 1990s
(Cumulative annual growth)

Sector (number of countries)	Weighted average	Median
Wage earners		
- Total (17)	2.2	2.7
- Private-sector (13)	2.2	3.2
- Public sector (13)	0.7	0.6
Own-account workers (17)	2.8	3.1
Domestic service workers (13)	3.9	3.5
Unpaid workers (15)	0.4	-1.9
Other categories (17)	0.4	0.5
Total (17)	2.2	3.4

Source: ECLAC, on the basis of official figures from the countries.

On average, 7 out of every 10 non-agricultural jobs were created in the informal sector. The number of own-account workers grew at higher rates than total employment, especially in urban areas. Thus, in the 1990s, the share of non-agricultural employment accounted for by these workers (excluding administrative, professional and technical workers) and by unpaid family members rose from 22.3% to 25%. In the same period, the share of microenterprises rose from 14.5% to 15.4% and that of domestic service workers from 5.3% to 6.3%, the end result being that the share of the informal sector[4] in non-agricultural employment increased from 42.1% to 46.7%.

[4] The informal sector is deemed to include all own-account workers (excluding administrative, professional and technical workers), unpaid workers, domestic service workers and those working for businesses with less than 5 employees.

For all its heterogeneity, the information for 14 countries shows that informal urban employment was most likely to rise in countries which had lower levels of economic growth, and that the increases were largest in those countries (see figure VI.2). In Argentina, the share of the informal sector declined when the economy was growing at rates higher than 5.5%, while the labour market adjusted through higher open unemployment, which has not fallen below 13% since 1995. Judging by the regional pattern over the decade, per capita output growth rates of less than 3.5% a year are insufficient to reduce the level of informality observed.

As policies came to favour more flexible labour markets, there was a move towards greater use of short-term contracts (temporary, seasonal, or part-time), the grounds on which contracts could be terminated were extended and redundancy payments were reduced (ILO, 1999). In particular, the proportion of wage earners working in temporary (non-permanent) jobs increased significantly, so that by 1997 it stood at over 15% in six of the seven countries considered. At about the same time, large percentages of urban wage earners had no contracts at all; in 1996, this was the case with more than 30% of all wage earners in six of the seven countries analysed. Trends indicate that the proportion of wage earners without contracts increased in these countries during the 1990s, with the exception of Colombia, where it seems to have decreased by about seven percentage points between 1989 and 1996 (ECLAC, 2000a).

In sectoral terms, the long-term decline in the proportion of employment accounted for by the primary sector continued, as did the upward trend in tertiary employment, while the rising tendency of secondary employment, which paused in the early 1980s only to resume towards the end of that decade, seems to have come to an end (see table VI.6).

Table VI.6
LATIN AMERICA (15 COUNTRIES): JOB CREATION BY BRANCH OF ACTIVITY, 1990s
(Cumulative annual growth)

Sector (number of countries)	Weighted average	Median
Agriculture (13)	-0.6	-1.2
Manufacturing industry (17)	1.3	1.3
Construction (17)	3.0	4.2
Trade services, restaurants and hotels (17)	4.0	5.7
Financial services[a] (15)	6.6	7.8
Basic services[b] (17)	4.8	4.8
Community, social and personal services (17)	2.9	2.8
Total (17)	2.2	3.4

Source: ECLAC, on the basis of official figures from the countries.

[a] Includes insurance, business services and real estate.
[b] Includes electricity, gas and water, and transport, storage and communications.

This change was structural, since not only did manufacturing employment decline in general, but this trend was most pronounced in countries with higher per capita income levels. In fact, the positive relationship between manufacturing employment and per capita output was reversed, turning negative by the end of the decade, whereas the opposite happened with the employment share of trade and services (see figure VI.3).

Figure VI.3a
LATIN AMERICA: GDP AND MANUFACTURING EMPLOYMENT

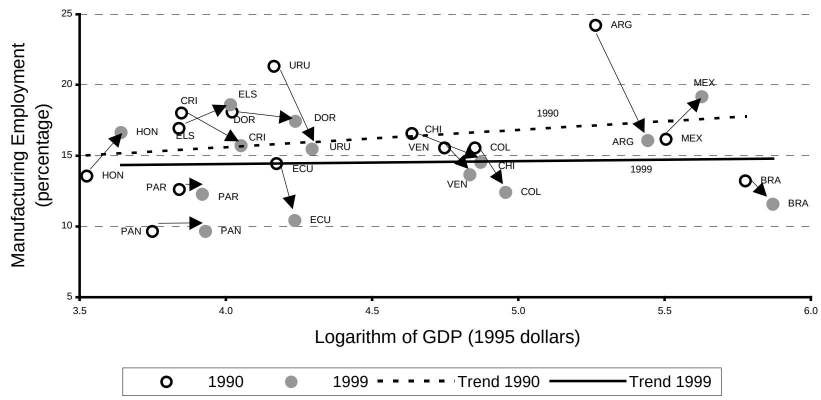
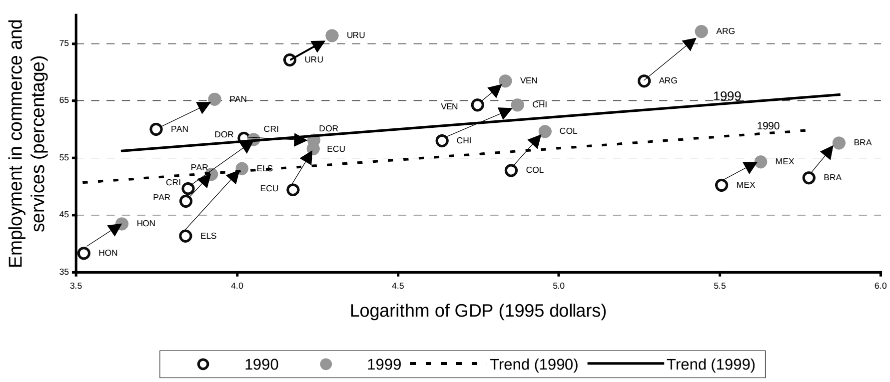


Figure VI.3b
LATIN AMERICA: GDP AND EMPLOYMENT IN COMMERCE AND SERVICES



Source: ECLAC, on the basis of official statistics.

In the 1980s, both real and minimum wages fell substantially in most countries in the region. This trend was partially reversed in the 1990s, when real wages in the formal sector increased across the region as a whole, the median rate being almost 20% higher in 1999 than at the end of the 1980s. The decline in wages seen in Brazil in the early 1990s and in Mexico in the middle of the decade, however, means that this increase in real wages was much less (5%) if the weighted average of rates is used. The situation with minimum wages was worse, as these declined sharply in the early 1990s, and even by the end of the decade the median minimum wage in the region was well below its 1989 level in real terms. On the other hand, the weighted average, which also experienced an initial decline, is moving back towards its late 1980s value (see figure VI.4).

The differences in the way regional averages for employment, wage and productivity indicators behave (depending on whether the median or the weighted average is used) reveal the degree of heterogeneity existing across countries. This situation is compounded by heterogeneity within individual countries. Thus, if the behaviour of labour variables is considered (unemployment rate, creation of wage employment, average labour productivity and real average wages), the performance of the countries can be seen to have differed substantially. The main factor was economic growth, as high and sustained growth rates allowed some countries, such as Chile, the Dominican Republic, El Salvador and Panama, to improve many or all of these variables. Others such as Ecuador, Jamaica, Paraguay and Venezuela, by contrast, achieved only modest economic growth over the decade, and this had a negative impact on labour market performance. In some cases, such as those of Bolivia and Honduras, employment increased significantly, but this was due more to the pressure of labour supply than to dynamic demand from companies, which meant that the new jobs were largely concentrated in the informal sector. Again, in the first half of the 1990s, some countries —Argentina, Brazil, Colombia and Peru— introduced significant economic reforms which tended to reduce the labour intensity of economic growth and resulted in negative performance in this area (Weller, 2001).

To sum up, during the 1990s new job creation was weak and took place mainly in the informal sector. Real wages, although they increased slightly, only managed a slow and partial recovery from previous losses.

Figure VI.4a
LATIN AMERICA AND THE CARIBBEAN (14 COUNTRIES):
REAL AVERAGE WAGES,1988-2000

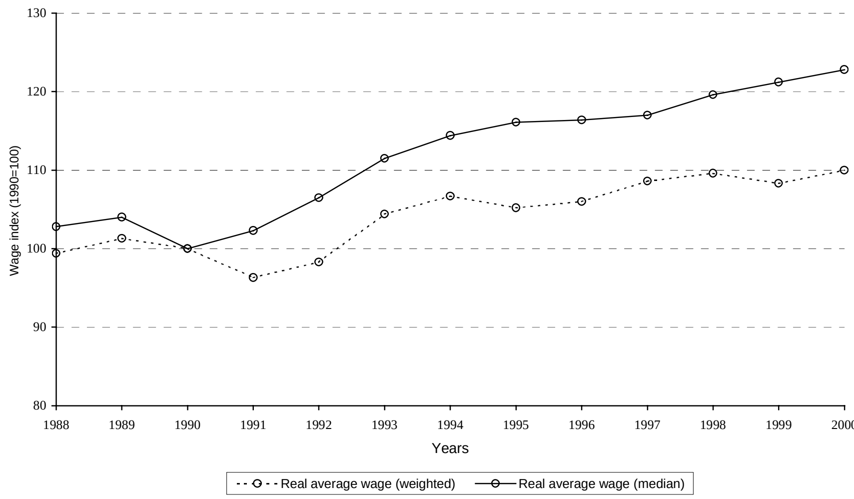
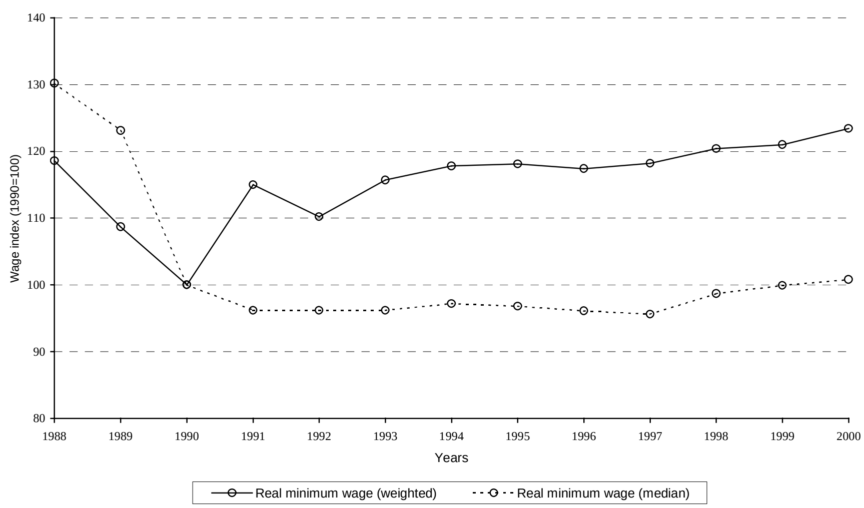


Figure VI. 4b
LATIN AMERICA AND THE CARIBBEAN (18 COUNTRIES):
REAL MINIMUM WAGE,1988-2000



Source: ECLAC, on the basis of official figures from the countries.

3. The persistence of poverty and inequality

With regard to poverty,[5] there has been a gradual reduction of the high levels inherited from the “lost decade”, when the proportion of poor households in the region rose from 35% to 41% and the number of people living in poverty increased from 136 million to 200 million. In the first seven years of the decade, the number of poor households fell by five percentage points, to 36%, which is close to the 1980 level. Owing to demographic growth, however, and the larger size of poor households, by 1997 the number of people living in poverty had increased to 204 million (see table VI.7). By 1999, even though the percentage of poor households was reduced a little further (35%), the number of people living in poverty increased to more than 211 million. It is now estimated that, in the following three years (2000-2002), 13 more million people became poor as the result of the crisis that began in the closing years of the decade. These figures show that the apparently favourable trend in poverty and indigence during the 1990s has to be treated with caution, as it was only in 1997 that the region managed to return to relative levels slightly higher than those of 1980. Even then there was no reduction in the absolute numbers living in poverty and indigence, and the situation grew worse again during the recent crisis.

The distribution of the poor population has changed profoundly, and it is now more concentrated in cities. Whereas in 1980 there were fewer poor people in urban areas than in rural ones, the situation was reversed in 1990 owing to migration and the increase in poverty in the cities. By 1999, there were 75% more poor people in urban areas than in rural ones, and the increase in the number living in poverty during the 1990s took place entirely in cities. This large increase helps to explain the decline in the quality of life seen in many of the region’s cities over the last 20 years.

Indigence has followed a pattern that is only slightly different: 15% of households were indigent in 1980, a proportion which increased to 18% in 1990, before falling back to 14% in 1999; the number of people living in indigence rose from 62 million to 93 million during the 1980s, then fell to 90 million by 1999. There were 77% more indigent people in rural areas than in urban ones in 1980, 8% more in 1990 and 1999. In general terms,

[5] The references to poverty in this section are based on the poverty lines or income thresholds calculated by ECLAC for each country in the region.

the structure of indigence underwent significant changes over the 1990s, although the proportion of people living in indigence continued to be three times higher in rural areas than in urban ones (38% and 12%, respectively in 1999).

Table VI.7
LATIN AMERICA: POVERTY AND INDIGENCE,[a] 1980-1999

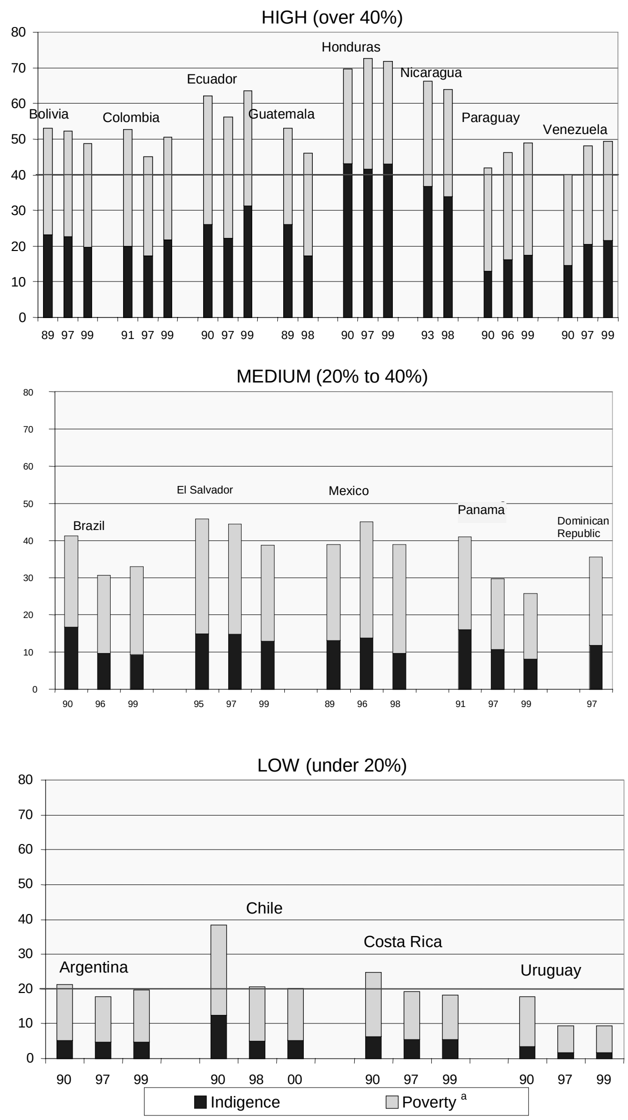
	Percentage of households					
	Poor[b]			Indigent[c]		
	Total	Urban	Rural	Total	Urban	Rural
1980	35	25	54	15	9	28
1990	41	35	58	18	12	34
1994	38	32	56	16	11	34
1997	36	30	54	15	10	30
1999	35	30	54	14	9	31
	Percentage of population					
	Poor[d]			Indigent[e]		
	Total	Urban	Rural	Total	Urban	Rural
1980	41	30	60	19	11	33
1990	48	41	65	23	15	40
1994	46	39	65	21	14	41
1997	44	37	63	19	12	38
1999	44	37	64	19	12	38
	Number (in millions)					
	Poor[f]			Indigent[g]		
	Total	Urban	Rural	Total	Urban	Rural
1980	135.9	62.9	73.0	62.4	22.5	39.9
1990	200.2	121.7	78.5	93.4	45.0	48.4
1994	201.5	125.9	75.6	91.6	44.3	47.4
1997	203.8	125.7	78.2	88.9	42.2	46.6
1999	211.4	134.2	77.2	89.4	43.0	46.4

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the countries concerned.

[a] Estimate for 19 countries in the region.
[b] Percentage of households below the poverty line. Includes indigent households.
[c] Percentage of households below the indigence line.
[d] Percentage of population below the poverty line. Includes the indigent population.
[e] Percentage of population below the indigence line.
[f] People living in poor households. Includes the indigent population.
[g] People living in indigent households.

Trends in poverty and indigence were also heterogeneous in the region. In some countries (Brazil, Chile, Panama and Uruguay), both indices declined sharply between 1990 and 1999; in others (Argentina, Bolivia, Colombia, Costa Rica, Ecuador, Mexico and Peru) they fell moderately; there were also some cases (Paraguay and Venezuela) in which they rose during this period. According to the most recent data, in Chile the downward trend in poverty has continued, albeit more slowly, while Mexico had a lower rate in 1998 than in 1989. It is very interesting to note that it was the countries with the lowest rates of poverty that made the steadiest progress over the decade, whereas in those with intermediate levels the results were extremely varied and those with high levels only made more modest progress. This demonstrates how the structure of poverty tends to perpetuate itself, and how difficult it is to deal with this problem (see figure VI.5).

Figure VI.5
LATIN AMERICA (17 COUNTRIES): URBAN POVERTY AND INDIGENCE
(Percentages)

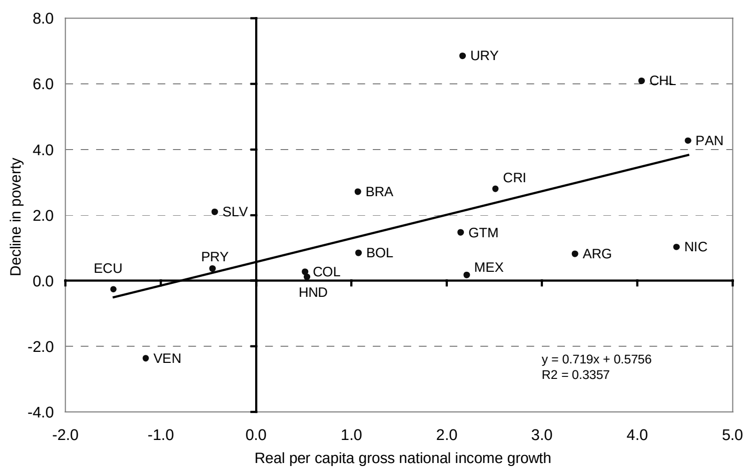


Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the countries concerned.

[a] Includes the indigent population.

The underlying causes of these very large differences in national performance are highly varied. There is no doubt that economic growth played a very important role in determining poverty trends, as there is a clear relationship between growth patterns and changes in per capita income over the decade (see figure VI.6). The relationship between the two is not uniform however, as the same rate of economic growth may have very different effects, depending on its composition. A particularly important factor is the extent to which growth stimulates high-quality job creation, but other variables also have a significant effect on poverty (social services, transfers, inflation). Thus, for example, while annual per capita income growth was more than twice as high in Argentina as in Costa Rica during the period 1990-1999, the impact in terms of the annual percentage reduction of poverty was similar in both countries. Similarly, Brazil and Costa Rica had comparable levels of per capita economic growth, but poverty was reduced to a greater extent in Brazil. In more general terms, however, linear regression analysis of the behaviour of the two variables over the decade shows that poverty levels increase when per capita income growth is less than 1% a year in real terms, and that for each additional percentage point of growth poverty can be reduced by 1.6 percentage points. Thus, if the rate of per capita output growth in the region stayed at the level of the past decade, it would take more than a quarter of a century to halve the current levels of poverty.

Figure VI.6
POVERTY AND REAL GROSS NATIONAL INCOME PER CAPITA, 1990-1999
(Average annual percentage change)



Source: ECLAC, on the basis of official information supplied by the countries and special tabulations of data from their respective household surveys.

In Latin America and the Caribbean, there has been a rising trend in unemployment and informal employment, both of which tend to increase poverty and to have a discouraging effect on adults who wish to work but have no opportunity to do so. Although trends and outcomes varied greatly across the region as regards poverty and work opportunities among poor households and workers, some typical situations can be identified. In the first place, there was a general trend in the 1990s towards rising labour force participation among members of poor families, with the sole exceptions of Argentina and Paraguay. Secondly, in all countries where poverty increased, the level of unemployment among workers from poor households rose as well, although higher unemployment among such workers does not necessarily entail an increase in poverty. The final outcome will depend on the income that these households receive through social welfare mechanisms. Thus, in Brazil, Costa Rica and Uruguay, unemployment increased among poor workers, but poverty fell, owing to large increases in transfers of public funds to poor households. Thirdly, in all countries where the unemployment rate among the poor declined, there was also a decrease in poverty. In the 1990s, three countries —Chile, Colombia and Panama— achieved favourable situations, with falling poverty and unemployment and rising or stable labour force participation among the poor. Argentina is a special case: poverty fell moderately there, and the unemployment rate of poor households also declined, but the low labour force participation rate of these households —the lowest of all the countries analysed (see table VI.8)— gave rise to growing discouragement about the prospects of finding work. Thus, if poverty is to be reduced, not only is it essential to create employment for workers from poor households, but social welfare programmes and monetary transfers from the public sector to those households are also indispensable.

Another development during the 1990s was that inflation was brought under control. Since high inflation affects those on lower incomes disproportionately, this had an extremely favourable impact on poverty. The most striking case is that of Brazil, where control of inflation combined with monetary transfer programmes to help bring about a 12 percentage point reduction in poverty between 1990 and 1996; similar processes occurred, although to a lesser degree, in Argentina and Peru.

Table VI.8
LATIN AMERICA: UNEMPLOYMENT, EMPLOYMENT DENSITY AND CONTRIBUTION OF TRANSFERS TO INCOME IN HOUSEHOLDS CLOSE TO THE POVERTY LINE, 1990s

Country/Year	Households close to the poverty line			
	Occupational density[a]	Unemployment rate	Transfers as percentage of household income	
			Rural	Urban
Marked reduction in poverty				
Brazil				
1990	0.45	4.0	11.1	8.6
1996	0.49	6.9	15.1	24.8
Chile				
1990	0.31	10.5	12.4	12.8
1996	0.34	7.2	12.6	15.8
Panama				
1991	0.30	19.6	12.7	19.7
1997	0.34	16.4	17.5	23.0
Uruguay				
1990	0.31	14.1	20.2	-
1997	0.34	17.8	21.1	-
Small reduction in poverty				
Argentina				
1990	0.23	31.0	16.2	-
1997	0.19	28.8	24.9	-
Costa Rica				
1990	0.28	7.0	8.1	4.3
1997	0.30	7.2	11.5	8.7
Colombia				
1990	0.35	13.5	11.1	-
1997	0.35	11.2	11.3	6.1
Ecuador				
1990	0.42	5.4	4.1	-
1997	0.47	7.7	5.0	-
Increase in poverty				
Mexico				
1989	0.33	3.4	9.1	8.7
1996	0.38	4.0	10.7	17.4
Paraguay				
1990	0.40	7.1	6.9	-
1996	0.38	9.4	9.9	-
Venezuela				
1990	0.27	10.0	5.4	-
1997	0.35	12.6	8.5	-

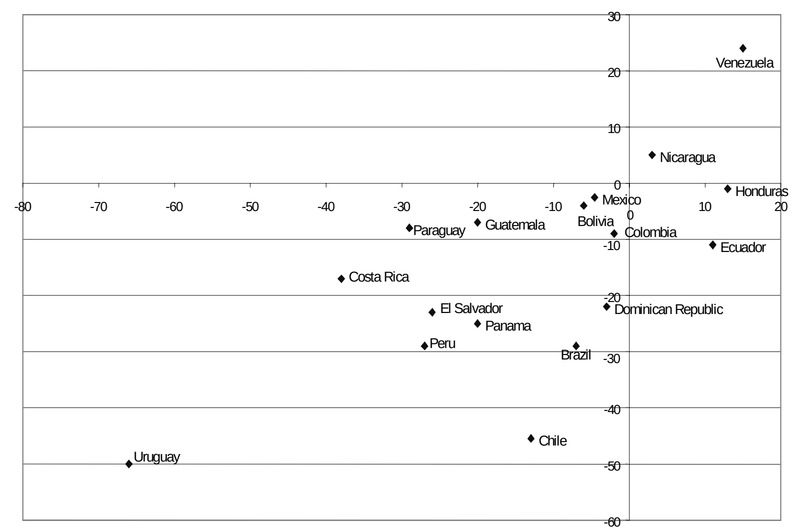
Source: ECLAC, on the basis of special tabulations of data from household surveys conducted to the countries concerned.

[a] Ratio of employed persons to total household members.

Poverty structures are reinforced by various mechanisms that tend to perpetuate this condition. Among the poorer strata, not only do families tend to have more children, but these face serious limitations in terms of access to productive employment, health services, education and the benefits of economic progress in general. Child labour and teenage pregnancy are also prevalent problems that usually cut short the schooling of boys, girls and adolescents, affecting both their own personal development and the development prospects of their children. Hence, the children of poor parents run a higher risk of remaining poor when they are adults, since the obstacles to their finding appropriate employment and the risk that poverty will be transmitted across the generations are higher.

Poverty as measured by the Human Poverty Index[6] used by the United Nations Development Programme (UNDP, 1997 and 1999a) is showing favourable trends, although the results produced by this method do not necessarily agree closely with income poverty trends, since it is less affected by immediate economic circumstances. The Human Poverty Index shows greater or lesser advances (or setbacks) than the income-based poverty index in the different countries (see figure VI.7), although only in exceptional cases do the two move in opposite directions.

Figure VI.7
POVERTY INDICATORS, 1990s



Source: Income poverty: ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, April 1999. United Nations publication, Sales No. E.99.II.G.4; Human Poverty Index (HPI): United Nations Development Programme (UNDP), *Human Development Report, 1999*, New York, 1999.

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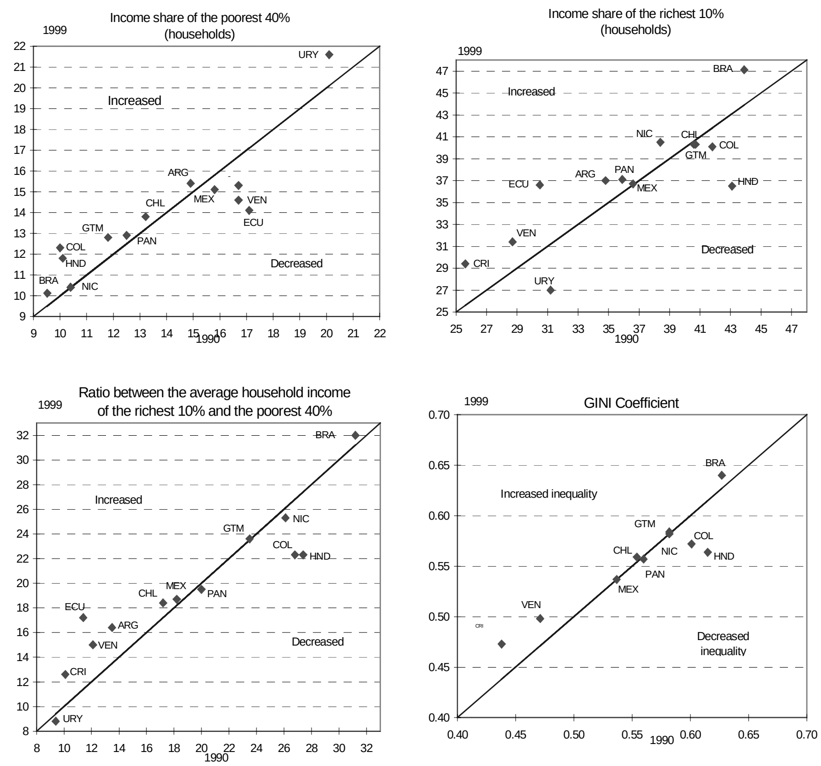
6 This index is based on a set of indicators for living conditions and certain specific variables (longevity, basic education, malnutrition and access to basic services).

With respect to income distribution, no significant progress was made in the region over the decade (see chapter I). Economic recovery, lower inflation and increased public social spending were not sufficient to produce any substantial improvement in this indicator. Of a sample of 13 countries, only five, (Colombia, Honduras, Nicaragua, Panama and Uruguay), showed progress in terms of income distribution; the last case is noteworthy because the improvements between 1989 and 1996 were achieved in a context of weak economic growth (see figure VI.8). In the remaining countries, income distribution remained unchanged or actually deteriorated in varying degrees (Argentina, Brazil, Chile, Costa Rica, Ecuador, Guatemala, Mexico and Venezuela). Among the most striking cases were those of Brazil, where a deterioration in the pattern of distribution coincided with substantial progress in poverty alleviation; Chile, which displayed poor results, despite vigorous economic growth and a sharp increase in social spending during the period; and Argentina, where economic expansion was accompanied by a deterioration in income distribution. In Venezuela, the country with the worst economic performance, income concentration increased markedly.

Regarding relative developments in urban and rural areas, it should be stressed that they rarely coincide. In Colombia, rural income inequalities were reduced more than in urban areas; in Brazil, there were no meaningful differences; and in Chile, the sharp deterioration of income distribution in rural areas recorded between 1987 and 1990 was followed by a substantial improvement in relation to urban areas. Rural income distribution deteriorated slightly in Costa Rica and Panama as compared to urban areas, while in Honduras and Mexico the trend moved in the opposite direction. Venezuela, lastly, showed a sharp deterioration in rural areas, with concentration increasing even more than it did in urban areas between 1990 and 1994.

The causes of the persistent income concentration seen in the 1990s have been the subject of much debate, since they involve the whole complex mix of factors that determines how the benefits of economic growth are appropriated. Among the main factors in the region were, firstly, a poor record of job creation, due in part to inadequate economic growth and also to a production structure that was unfavourable to sectors making intensive use of direct labour; and, secondly, the persistent concentration of human capital, particularly in terms of education and assets. The poor distribution of income and opportunities also reflects major problems of social stratification and exclusion, which continue to be transmitted from one generation to the next, and which the current development model has no more been able to resolve than those which preceded it.

Figure VI.8
LATIN AMERICA (13 COUNTRIES): CHANGES IN INCOME DISTRIBUTION,[a]
1990-1999
(Countries total)



Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the countries concerned.

[a] Calculated by distributing households into per capita income deciles. The data are for whole-country, except in Argentina (Greater Buenos Aires) and Ecuador and Uruguay (urban areas).

With respect to education, the gains made by the lower-income sectors have been too limited in quantity and quality to bring them up to the level of the higher-income strata. Among households in the six or seven lowest per capita income deciles, the average number of years spent in education by heads of household, and by the economically active members of households generally, tended to equalize in the 1990s, but at the same time the gap with the higher deciles widened. While the overall average is around eight years of education, the lowest decile has two years less, whilst the highest decile exceeds this average by at least four years (12 years or over).

Hence, despite efforts to raise the educational level of the new generations, which have resulted in young people receiving about three more years of schooling on average than their parents, there has not been any significant improvement in the distribution of educational capital or income. Owing to these asymmetries, and to declining returns on education in terms of job opportunities, only 47% of young people in urban areas and 28% of those living in rural areas have improved on the educational level of their parents to the extent that they have kept ahead of the increasing exigencies of the labour market and actually have access to better employment prospects than the previous generation (ECLAC, 1998d). This finding is borne out by the results of a number of opinion polls, according to which only half of Latin America's young people feel that they enjoy better opportunities than their parents.

From the point of view of distribution, the favourable effects of raising workers' average educational levels, which was achieved by widening not only the coverage of education systems but also access to secondary and university education, were counteracted by the widening of wage differentials between different skill levels. This combination of factors helped to perpetuate widespread, structural inequality in income distribution.

The stable or unfavourable trend of distribution is closely linked to the inequality of earnings by education level, which clearly increased over the decade. Nevertheless, this effect was offset to some degree by other trends, such as the reduction of inflation, the narrowing of disparities within groups and the implementation of certain family income support policies.

Income differentials between workers with primary and secondary education tended to decrease in a number of countries, with positive effects on traditional income distribution indicators. However, this improvement was counteracted by the widening pay gap between higher-skilled workers and lower-skilled ones, in particular between those with university education and those without. This was reflected in a very sharp and generalized increase in pay differentials between professional and technical workers and other workers, in both the formal and the informal sectors (see table VI.9).

Table VI.9
LATIN AMERICA AND THE CARIBBEAN (17 COUNTRIES): EARNINGS DIFFERENTIALS[a] IN URBAN AREAS, 1990-1999

Country	Year	Pay differential between professional and technical workers and wage earners in the formal private sector	Pay differential between professional and technical workers and the wage earners in the informal[b] private sector	Pay differential between formal and informal[b] private sector wage earners	Average pay differential between the formal and informal sectors	Pay differential between men and women	Pay differential between men and women with over 12 years of education
Argentina [c]	1990	211	211	139	93	155	161
	1999	180	174	147	115	154	152
Bolivia	1989	237	173	161	138	176	205
	1999	205	208	191	203	171	154
Brazil	1990	223	165	135	138	184	194
	1999	234	171	168	163	163	175
Chile	1990	217	200	167	136	159	183
	1998	279	237	188	138	150	159
Colombia	1991	221	…	…	…	150	148
	1999	243	…	…	…	136	135
Costa Rica	1990	218	209	146	164	145	152
	1999	215	194	148	157	145	141
Dominican	1990	…	…	…	…	…	…
Republic	1997	222	213	157	121	133	134
Ecuador	1990	221	148	147	189	165	180
	1999	175	153	184	204	162	141
El Salvador	1995	250	155	161	180	164	139
	1999	232	183	195	195	137	137
Guatemala	1989	207	229	172	152	154	…
	1998	265	216	175	209	190	161
Honduras	1990	257	244	191	264	170	158
	1999	152	155	201	170	160	135
Mexico	1989	223	…	…	…	182	158
	1998	235	247	164	125	181	179
Nicaragua	1993	210	209	135	133	131	153
	1998	248	274	170	186	161	149
Panama	1991	234	285	168	255	115	132
	1999	236	289	200	206	122	141
Paraguay [d]	1990	189	211	153	125	183	174
	1999	208	178	162	183	137	149
Uruguay	1990	210	192	166	120	204	177
	1999	241	169	181	178	154	172
Venezuela	1990	186	140	162	111	155	140
	1999[e]	230	200	166	128	131	135
Simple	1990	219	198	157	157	161	165
average [f]	1999	221	200	177	174	153	150

Source: ECLAC, on the basis of special tabulations of data from household surveys conducted in the countries concerned.

[a] Ratios between the average income of the higher-income category and the lower one, multiplied by 100.
[b] Excludes domestic service.
[c] Greater Buenos Aires.
[d] Asunción metropolitan area.
[e] This data refers to national total.
[f] Excludes Colombia, Dominican Republic and Mexico.

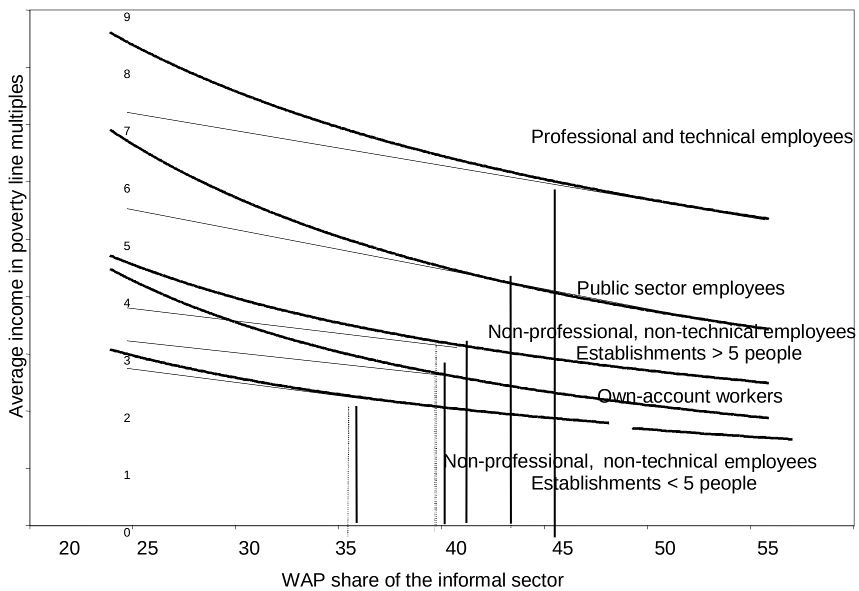
The wage gap between workers in the formal sector of the economy and those in the informal sector also increased, albeit to a lesser degree and with wider differences between countries. Since, as already mentioned, it is in the informal sector that most new jobs were created, this contributed to the worsening distributional situation. The increase in this differential reflects both productivity factors and the lack of organization and bargaining power (with respect to wages and working conditions) of workers in this sector.

Between 1990 and 1999, wage differentials between higher-skilled and lower-skilled workers widened more in the informal sector than in the formal sector. This was probably linked to technological change that raised the skill levels required of workers in the formal sector, thus creating a relative oversupply of unskilled labour. This supply seems to have been absorbed by the informal sector at lower wages. At the same time, there appears to have been a shift of skilled workers into informal or small-scale activities because of the streamlining of production and administrative procedures in large corporations and the restructuring of the public sector.

Average pay levels as multiples of the poverty line for the different occupational categories are sensitive to the extent of informal working in urban areas. A number of very marked trends may be observed in this respect (see figure VI.9). Firstly, irrespective of the degree of informality, there are differences between wages in the different occupational categories. Secondly, as the degree of informality declines, average incomes increase for all occupational categories. Thirdly, when informality declines, wages for the more skilled categories, especially in the formal sector, are the first to improve, so it would seem that the formalization of labour involves a deterioration in income distribution.

Lastly, unemployment continued to have an adverse effect on the distribution outlook. Unemployment rates were much higher among lower-income groups than in the better-off strata; in fact, the unemployment rates of the poorest households were twice and in some cases three times the average, reflecting acute inequity. Hence, the benefits of growth, in terms of higher employment and wage levels, were concentrated among the more prosperous socio-economic strata (ECLAC, 1999d).

Figure VI.9
LATIN AMERICA: AVERAGE INCOME IN POVERTY LINE MULTIPLES AND PROPORTION OF THE ECONOMICALLY ACTIVE POPULATION WORKING IN THE INFORMAL SECTOR, BY OCCUPATIONAL CATEGORY[a]



Source: ECLAC, *Social Panorama of Latin America, 1998* (LC/G.2050-P), Santiago, Chile, April 1999. United Nations publication, Sales No. E.99 II.G.4 (tables 4 and 6).

[a] Regression analysis of pooled data from 17 countries, with 1 to 5 inputs between 1981 and 1997 (total of 38 observations) for average income in each occupational category (as poverty line multiple) and proportion of the economically active population working in the informal sector. The informal sector includes non-professional, non-technical, private-sector employees in establishments employing up to 5 people and non-professional, non-technical own-account workers and unpaid family members.

4. Gender equity

A review of events in the 1990s as they affected women in Latin America and the Caribbean reveals progress, inconsistencies and ambiguities. In most countries, on the one hand, the structural changes that accompanied modernization created the conditions for a substantial influx of women into the labour market and for broader access to the different levels of education and to health and family planning services. These structural changes were brought about by a number of factors: firstly, the economic crisis of the 1980s, which forced women to seek paid work so that they could contribute to the family budget; secondly, the social movement set in train by women themselves and by international organizations, which created general acceptance of the idea of gender equality and brought into the public arena issues, such as domestic violence, that had been regarded as belonging to the private sphere; lastly, the establishment of government agencies for the advancement of women, whose work in this area included mainstreaming concerns about gender equity in the public agenda.

This very progress in opening up the different spheres of social life to women, however, has underscored the disparities between their situation and that of men. Major inequalities between men and women persist: in their participation in decision-making at all levels, in their ability to balance family life with activities in the public sphere, and in their scope for developing their own abilities and the autonomy that they need if they are to exercise their rights as citizens more fully.

In the 1990s, progress with women's education was consolidated as a result both of improvements in the general level of education and of an increase in the enrolment of girls as compared with boys. The superior performance of girls at the primary level was reflected in a greater number of years of schooling. Girls are thus reaching the middle and higher stages of education, with positive implications for their participation in the labour market. At the end of the 1990s, however, there were still significant shortcomings in the general educational level of older women (ECLAC, 1999d).

While access to education has improved, some major quality problems remain unresolved, and this is having adverse effects on equity and on the creation of the values needed to underpin a less discriminatory society. Academic culture still tends to overrate male potential and to ignore or underrate female potential, a problem that is manifested in stereotyped educational material, a failure to pay sufficient attention to female students in the classroom, a lack of emphasis on science and technology and a narrowing of career opportunities. While educational policies and reforms in the sector have sought to correct this situation by various means, such as the creation of new study plans, stereotype-free textbooks and training programmes that equip teachers to promote an understanding of gender equity, a great deal still remains to be done.

Better education for women has had positive effects on society as a whole, in particular by improving the educational environment of the home. It has also had a positive impact on health, has helped to reduce child mortality, and has raised the quality of human resources for development. It has not had an equally positive effect, however, on gender discrimination in the economic, social, cultural and political spheres.

In the region, developments in the 1990s as regards female labour market participation and gender-based wage inequalities demonstrate that the trends are in keeping with general patterns and the variations are produced by exceptional factors. The female labour force participation rate increased —especially among women aged 25 to 45 and married women— among all income strata in both urban and rural areas. The only exceptions were the Dominican Republic and El Salvador, where this indicator started to decline after having exceeded 50% of the female population in the early part of the decade (ECLAC, 1999d). In all cases, labour force participation rose by more among women from high-income households than among women from poor households. It is particularly interesting to note that, by contrast with what happened in the case of the economically active male population, there was a close relationship between women's educational levels and their labour force participation rate. This rate now exceeds 70% among women with 13 or more years of schooling in Argentina, Brazil, Colombia, Ecuador, Guatemala and Panama.

This massive entry by women into the workforce coincided with a shift towards service sector employment among the economically active female population, whose working conditions became more insecure, and towards vertical and horizontal segmentation of labour by gender. Women's wage levels were substantially lower than those of men, and most women worked in the informal sector (Arriagada, 1997). This is a cause for particular concern in view of the fact that the region's labour market generated few formal jobs in the 1990s, with the result that employment quality declined, and this situation was compounded by the growing wage differential between skilled and unskilled workers (ECLAC, 1997c).

Women's working conditions tend to be poorer than men's, with a significant gender gap in pay for equivalent work at all levels of education, but especially at the upper end of the scale (ECLAC, 1999d). The retirement pensions paid to women perpetuate the pay discrimination that affects them during their working lives. This gap has tended to narrow, however, and equity has tended to increase, both in general and among the categories with professional qualifications, with a few exceptions (see table VI.9).

With respect to health, the main advance in the region has been the growing recognition given to the importance of comprehensive health care and greater concern about health conditions for women in the workplace.[7] Nevertheless, complications linked to pregnancy and

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[7] There is not enough information available to permit of a thorough evaluation of the progress made with comprehensive health care for women. No doubt because of the region's high population growth, the focus has been on reproduction and women's

childbirth are still among the leading causes of death among women of child-bearing age. Considering that such deaths are for the most part preventable, and that the scientific knowledge and simple technologies needed to prevent them are available, this is further compelling evidence of inequity.[8] Furthermore, whereas in some countries access to family planning may differ only slightly from one social stratum to another (with the poorest groups always faring worse), in others the disparities are enormous. For example, depending on the country, the proportion of women living in consensual unions who are unable to meet their family planning needs is four to ten times higher among those with a low level of education than among those with higher education (ECLAC-CELADE, 1998a).

As regards access to health sector benefits, and the quality of these, gender inequality, especially as it affects women of child-bearing age, female senior citizens and women who are not in paid employment or who work in the informal sector, is also manifested in problems of social security coverage. A significant percentage of women who devote most of their time to domestic duties have limited access to the social health care system. Again, social security schemes tend to reinforce the unequal distribution of child-raising costs between men and women and of benefits between those who work in the formal and informal sectors.

As more women entered the labour market in the 1990s, and as social consensus and government policy came to reflect the new cultural norm of equal opportunities, there were signs of a less rigorous segregation of roles between the sexes. A rigid, gender-based division of labour —which means that responsibility for housework is borne almost exclusively by women— and a virtual absence of support networks for domestic tasks, including care for children and the sick, are still among the main obstacles preventing women from exercising their rights as citizens fully and equitably. The situation is compounded by a lack of social recognition for work in the home, which means that reproductive tasks are excluded from the spheres considered “important”, and by the

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ability to control their own fertility, while less progress has been made in areas such as nutrition, mental health, occupational health and sexual and domestic violence.

[8] Around 1990, the maternal mortality rate was less than 90 deaths per 100,000 live births in Argentina, Bahamas, Barbados, Chile, Costa Rica, Cuba, the Dominican Republic, Mexico, Panama, Trinidad and Tobago, Uruguay and Venezuela; between 115 and 150 deaths per 100,000 live births in Belize, Brazil, Colombia, Ecuador, El Salvador, Jamaica and Nicaragua; and over 220 in Bolivia, Guatemala, Haiti, Honduras, Paraguay and Peru (ECLAC, 1999b).

long working day of women who, in addition to participating in the labour market, have to attend to their domestic responsibilities.[9]

At the legal level, important institutional steps have been taken to bring national legislation into line with the Convention on the Elimination of All Forms of Discrimination against Women (an instrument ratified by all the countries in the region), and this has gradually led to the elimination of discriminatory expressions, to the incorporation of the principle of non-discrimination and to the enactment of laws that protect and guarantee the rights of women, including laws against domestic violence and sexual harassment (Binstock, 1998). However, there are still major difficulties in applying these standards, something that must be attributed to the legal system as a whole, since a wide gap can be seen to exist between equality under the law and de facto equality.

Likewise, empowering women in Latin America and the Caribbean to participate more fully in decision-making on issues of public import has always been a formidable task, and it continued to be so in the 1990s, when steady but still very limited progress was made, especially in parliaments and at intermediate levels in agencies of the executive power.

Of the three powers of the State, the legislature is the sphere in which women have made the most significant headway in all countries of the region. Nevertheless, there are still marked differences in the successes attained, with female representation ranging from 2.5% in the Paraguayan Chamber of Deputies (1998) to 27.6% in Cuba and in Argentina, where the Women's Quota Law was passed in 1991. In the 1990s, the region saw a sharp increase in female representation in the central executive. The judiciary, meanwhile, has remained practically closed to women, who are completely unrepresented in the supreme courts of justice of 8 of the 20 countries for which information is available; in the others, they are very much in a minority.

The fact that women have a very limited active role in development policy decision-making helps to explain why they have such difficulty in having their problems and needs placed on the government policy-making agenda, in securing State funding for the implementation

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9 The theoretical and methodological obstacles to including unpaid work in national output calculations need to be overcome. The fact that unpaid work is not included in systems of national accounts has a negative effect on perceptions of women's productivity, even though they actually work longer hours than men in almost all countries (UNDP, 1995). Quantifying the economic contribution of women's unpaid work in the home would be a step towards remedying the disjunction between the public (productive) sphere and the private (reproductive) sphere in social organization, considering the value inherent in care for the family and the household.

of policies to improve their situation and in exercising their rights as citizens fully.

With respect to the institutional framework for policies promoting gender equity, the first government offices responsible for implementing policies and programmes for the advancement of women were created in 1976, and further progress in this direction was gradually made during the 1980s. All the countries in the region have now set up offices with this mandate as part of the State structure. Whereas in the early 1990s the great majority of women's bureaux were situated at intermediate and low levels of the State hierarchy and had very limited executive capabilities, they received a strong boost in the middle of the decade from the adoption of the Regional Programme of Action for the Women of Latin America and the Caribbean, 1995-2001 (ECLAC, 1995b) and the Platform for Action that came out of the Fourth World Conference on Women (Beijing, 1995), as a result of which 16 of these 33 bodies were elevated to intermediate and high levels of the State apparatus, their resources were increased and their legal mandates and operating and coordination capacities were strengthened.

The development and strengthening of these institutions led to progress in the design and formulation of policies and programmes consistent with an integrated development focus and gender mainstreaming. Accordingly, moves to create government policy planning and follow-up instruments resulted in the creation of a broad range of sectoral, national and coordination mechanisms, shaping a network that integrates women's programmes and polices at different levels.[10]

Nevertheless, these offices for women face major risks, such as lack of continuity in their technical teams, underfunding and the precariousness of their institutional position within the State apparatus. They have also faced difficulties in policy implementation, follow-up and evaluation, and their relationship with civil society organizations has not always been rewarding. Moreover, a number of challenges need to be overcome if gender policies are to be successfully adopted and implemented. These include ideological resistance to change, conceptual and methodological complexity, the multiplicity of social and political actors involved, conflicts of interest and institutional problems deriving from public administration itself.

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[10] These mechanisms have played an important role in efforts to assess the position of women, improve gender-specific statistics, develop awareness campaigns and training programmes and implement programmes and projects for particularly vulnerable groups.

5. Public spending and reforms in the social sectors

(a) Public social spending: recovery and reallocation

As revenues increased slightly, and as higher priority came to be given to meeting social needs, public social spending rose in almost all the countries. The effects of this progress on inequality, however, have been slow to emerge. For Latin America as a whole, it is estimated that public social spending has increased from 10.4% of GDP in 1990-1991 to 13.1% in 1998-1999, with more significant increases in those countries whose per capita social spending was lower at the beginning of the 1990s. In a number of countries, the increases were particularly substantial: 7 percentage points of GDP in Colombia, 6 points in Uruguay, 4.3 points in Paraguay and 3.5 points in Peru. In 1998-1999, Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Panama and Uruguay had public social spending levels of between 15% and 23% of GDP, values very close to, and in some cases higher than, those of several developed countries (see table VI.10).

Comparison of per capita social spending levels in the region between the beginning and end of the decade shows that public social spending has returned to pre-debt crisis levels. By the end of the decade, average per capita expenditure had increased to around US$ 460, a figure significantly higher than the US$ 330 (1997 dollars) recorded in 1990-1991, representing annual growth of 5.5% (see figure VI.10). Over the period 1996-1999, however, this rate slowed to an annual average of 3.3%, little more than half the level of 6.4% attained in the period 1990-1995.

In per capita terms, social spending in Colombia, Guatemala, Paraguay and Peru showed exceptional growth, nearly or more than doubling between 1990-1991 and 1998-1999, although starting from low initial values. In the Dominican Republic and Mexico it increased by around 50%, while in Bolivia, El Salvador and Uruguay it rose by more than 30%. In the other six countries where per capital social spending grew (Argentina, Brazil, Chile, Costa Rica, Nicaragua and Panama), the increases ranged between 8% and 23%. It declined slightly in only two countries (Honduras and Venezuela). Where per capita social spending increased over the 1990s, this can be attributed, depending on the country, to higher economic growth (Argentina, Brazil, Chile and Uruguay), the expansion of overall public spending (Costa Rica, the Dominican Republic and Paraguay), higher priority for social spending within the public expenditure budget (Bolivia, Guatemala, Mexico and Peru) or a combination of these factors (Colombia, El Salvador and Panama) (ECLAC, 1999d).

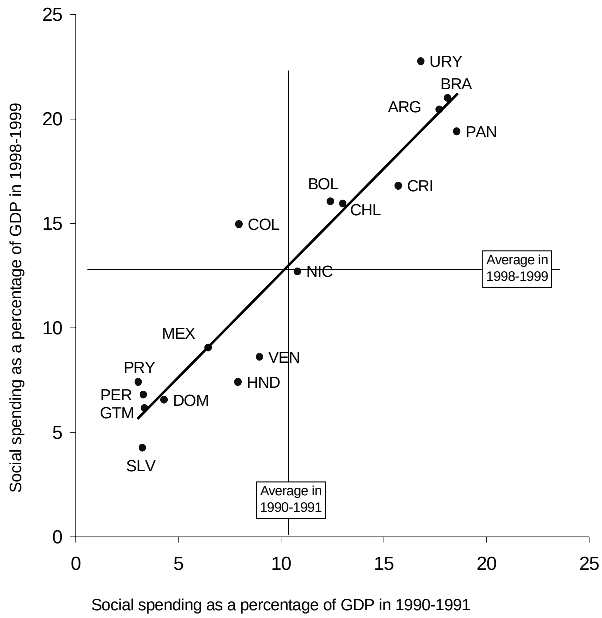
Table VI.10
LATIN AMERICA AND THE CARIBBEAN (17 COUNTRIES): RATIO OF SOCIAL SPENDING TO GDP OVER TIME, BY SECTOR

Country	Social spending/GDP		Social spending/GDP Education		Social spending/GDP Health		Social spending/GDP Social security		Social spending/GDP Housing and social welfare[a]	
	1990-1991	1998-1999	1990-1991	1998-1999	1990-1991	1998-1999	1990-1991	1998-1999	1990-1991	1998-1999
Argentina	17.7	20.5	3.3	4.7	4.0	4.6	8.3	8.7	2.1	2.5
Bolivia [b]	12.4	16.1	5.3	6.0	3.1	3.3	1.4	3.9	2.5	3.0
Brazil [b]	18.1	21.0	3.7	3.9	3.6	3.4	8.1	11.5	2.7	2.2
Chile	13.0	16.0	2.6	3.9	2.1	2.8	7.0	7.5	1.4	1.8
Colombia	8.0	15.0	3.2	4.7	1.2	4.1	3.0	5.2	0.6	1.0
Costa Rica	15.7	16.8	3.8	4.4	5.0	4.9	4.9	5.9	2.1	1.8
Dominican Republic	4.3	6.6	1.2	2.8	1.0	1.5	0.4	0.8	1.8	1.5
El Salvador [c]	3.3	4.3	2.0	2.7	1.3	1.5	0.0	0.1	0.0	0.0
Guatemala	3.4	6.2	1.6	2.3	0.9	1.3	0.8	0.9	0.1	1.7
Honduras	7.9	7.4	4.3	4.1	2.6	2.0	0.1	0.0	0.9	1.3
Mexico[a]	6.5	9.1	2.6	3.8	3.0	2.1	0.3	2.3	0.7	0.9
Nicaragua	10.8	12.7	5.0	5.7	4.6	4.5	0.0	0.0	1.3	2.5
Panama	18.6	19.4	4.7	6.0	6.1	6.8	5.9	5.4	2.0	1.3
Paraguay	3.1	7.4	1.2	3.7	0.3	1.1	1.2	2.6	0.4	0.1
Peru	3.3	6.8	1.3	2.2	0.7	1.3	1.1	2.8	0.1	0.5
Uruguay	16.8	22.8	2.5	3.3	2.9	2.8	11.2	16.3	0.3	0.5
Venezuela	9.0	8.6	3.5	3.8	1.6	1.4	2.4	2.6	1.6	0.8
Simple average [d]	10.4	13.1	2.9	3.9	2.6	2.9	3.6	4.8	1.2	1.4

Source: ECLAC, Social Development Division, social expenditure database.

[a] The housing and social welfares figure includes food aid, social welfare and regional and urban development.
[b] The starting figure is for 1995.
[c] Estimate of consolidated social expenditure. The last figure is for 1998.
[d] The starting figure is an average for 1994-1995.
[e] Simple average for the countries shown, except Bolivia and El Salvador.

Figure VI.10
LATIN AMERICA (17 COUNTRIES): SOCIAL SPENDING, 1990-1991/1998-1999

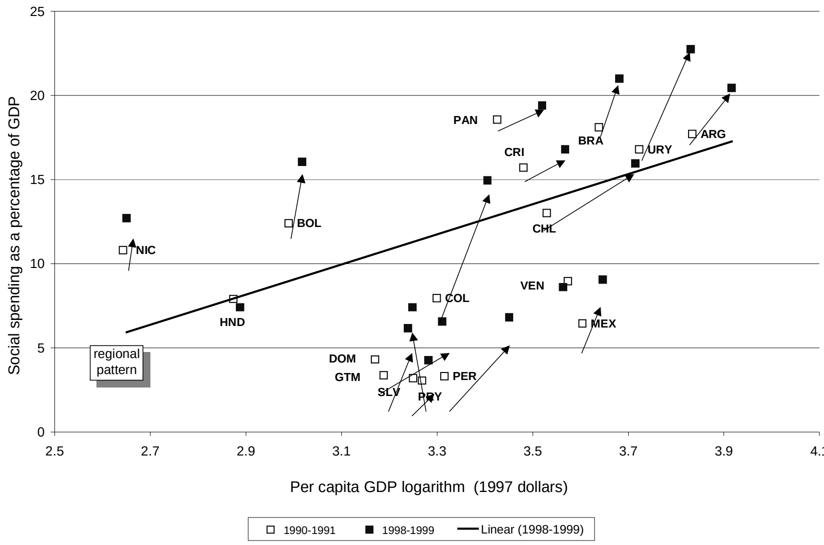


Source: ECLAC, on the basis of information held in the database on social expenditure.

In those countries where it was lower to begin with, social spending grew by an average of 10.7% a year, a rate twice as high as the average for countries with higher per capita public social spending. The differences between the countries' income levels are so great, however, that large disparities still exist (see figure VI.11).

Viewed as a whole, public social spending has the characteristics of a "higher good", since the relative weight of social security increases as per capita income rises. Spending on human capital (education and health) as a percentage of output, rather than being linked to per capita income, reflects the priority that countries attach to it. In any event, there are large differences between the spending of individual countries and the average regional pattern. Given their income levels, Argentina, Bolivia, Brazil, Colombia, Costa Rica, Nicaragua, Panama and Uruguay have high levels of social spending as a proportion of per capita GDP. By contrast, there is a large group of countries whose per capita social spending is lower, in some cases significantly so, than the regional average.

Figure VI.11
PER CAPITA GDP AND SOCIAL SPENDING



Source: ECLAC, Social Development Division, social expenditure database.

The composition of extra public social spending between 1990-1991 and 1998-1999 reveals clear shifts in priorities (see table VI.10). Thus, 48% of all extra spending went on education and health (37% and 11%, respectively), items where spending has relatively progressive effects (see below), and 45% on social security, whose implications for equity are less clear. The emphasis on the health and education sectors was more pronounced in countries with medium and low levels of relative spending, since in both cases 61% of the increase went to these areas. In countries with lower per capita incomes, the rise in spending on human capital was higher in relative terms, whereas extra spending on social security was more substantial on average in countries with higher per capita incomes, although there were wide variations among them.

Between 1990-1991 and 1998-1999, spending on education increased from 2.9% to 3.9% of GDP, which represented growth of almost 35% in absolute terms. This substantial increase in public spending in the sector was largely geared towards supporting the efforts being made by a number of governments to narrow the gap between teachers' salaries and those of other skilled workers in the public sector. Thus, in the 1990s teachers' salaries increased by between 3% and 9% a year, depending on the country, this growth accounting for between 70% and 80% of the additional education spending.[11]

In the 1990s, on the whole, the public spending which had the most progressive effects, i.e., whose benefits went in the largest proportion to the lowest-income households, was that allocated to primary and secondary education and to health and nutrition. In relation to former decades, the main difference now is how progressive secondary education spending is, something that illustrates the high marginal progressiveness of any type of spending as the coverage of the services funded by it expands. Spending on social security and university education is the least progressive, a fact that reflects the still limited coverage of these services in the region.

(b) The direction of reform

In the 1990s, sweeping changes were made to the social protection and development systems of the region's countries. The demands unleashed by the institutional and social decline of the preceding decade, the increasing acceptance of new approaches to public administration and the need to act more vigorously and forcefully in the social sphere led to reconsideration of basic tenets of administration and organization as these related to social development objectives.

A large number of countries carried out reforms to social development, protection, security and welfare systems, the main areas affected being pensions, health, education, housing and social welfare. The objective of the changes introduced by these reforms was usually to overcome problems that reduced the efficiency and impact of public management and spending. Issues such as inadequate coverage, inequitable segmentation in subsystems,[12] inflexible allocations and bureaucratic management and decision-making were seen as obstacles that made it very difficult and costly to expand social programmes.

The basic objective of these reforms was to achieve greater efficiency and effectiveness in public administration and social spending and to solve problems of access and social coverage for a large proportion

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[11] Large increases were seen in Paraguay, Bolivia, Chile and Brazil, where hourly pay rates rose each year by 9.5%, 7.8%, 7.8% and 4.0%, respectively. In Uruguay, Costa Rica and Ecuador, real increases were lower: 2.8%, 1.7% and 0.4% a year, respectively.

[12] Among the main obstacles to greater solidarity have been the partial and segmented coverage of traditional systems and the proliferation of special plans which benefit particular population groups. Most of these preferential plans (retirement and health protection schemes financed out of the general public budget, housing finance, special education services) are expensive, with a fiscal cost that is far above the average for the services provided to the population as a whole.

of the population. To this end, most of the reforms involved the introduction of systems of private participation in the provision and financing of social services, subject in some cases to the principle of equivalence between contributions paid and benefits received. Such mechanisms, while they enhance economic efficiency and financial transparency, particularly when considered in relation to the individual, are not entirely compatible with the objective of greater solidarity. By the same token, efforts were made to give users or beneficiaries greater autonomy by means of demand subsidies, often employed in conjunction with analytical and operational instruments used to select beneficiaries with a view to providing the poorest in society with priority access to services.

As part of the same quest for greater efficiency and transparency in public action and benefits, the administrative and fiscal decentralization of public management was taken further, the aim in this case being to reduce leakage in public spending, achieve greater social control and bring beneficiaries closer to decision-making centres. Similarly, the institutional system was reorganized by separating out functions and responsibilities in financing, services provision and systems regulation.

In addition, some reforms sought to restructure social services allocation and financing systems through the use of public spending quotas, local resources, specific sources and increases in contributions, all within a framework of rationalization combined with higher expenditure.

In some cases, reforms sought to achieve greater social participation by establishing negotiation, coordination, oversight and collective consensus-seeking mechanisms, with the twofold aim of achieving greater citizen commitment to established programmes and constructing a modern, democratic civic culture through public dialogue and an informed approach to dealing with general and individual demands.

(c) Important aspects of sectoral reform

In the 1990s, particularly vigorous efforts were made to reform the social sectors in a number of the region’s countries; this subject has been covered in depth in another ECLAC document (2000a). Generally speaking, despite the common direction of reforms, the models and innovations adopted by the countries were far from homogeneous.

Education system reforms have addressed issues of financing, organization, management, quality and integration with the public and social spheres. An early priority was to reconsider the role of central government with a view to reinforcing its work of strategic orientation, general regulation and evaluation of the results of the system. Progress was also made in decentralizing administration of the system down to local governments and educational establishments, in some cases with active community involvement. In some countries, new participation mechanisms have been set up so that private agents can provide compulsory education for poor students, the supply of public education being supplemented by individual demand subsidies or payments to private establishments catering to the poor target population. Beneficiary selection systems and supplementary support programmes (such as supplementary nutrition schemes and programmes to provide teaching and student materials) have been instrumental in enabling the poorest to enter and remain in the school system, thus enhancing the solidarity of public spending in this sector.

In order to build on educational gains, efforts and reforms have been geared towards developing evaluation mechanisms, redesigning curricula, supplying educational materials, extending school days, providing training for teachers, introducing computer science and improving infrastructure. As part of this effort, some reforms have sought to enhance the economic and cultural position of the teaching profession by changing the systems of teacher pay and recognition.

Educational reforms have not gone far enough —either in conception or implementation— in integrating the activities and aims of the educational sector with other fundamental aspects of economic, social and cultural life. Hence, coordinating basic education with vocational training and research systems, and the latter with the needs of business and industry, remains an inescapable challenge. The region thus needs to set about developing a system of higher and vocational education with wider coverage, more diversity and greater economic impact, with close links to the system of scientific and technological research and innovation, and with the capacity to generate the new knowledge that competitiveness requires.

The health system reforms carried out have generally helped increase membership of contributory systems by establishing family coverage and integrating numerous different protection schemes, the proliferation of which has been particularly great in the case of public-sector workers. They have also changed benefit rules by introducing risk insurance mechanisms linking contributions to individual or group risk indicators. Compulsory contributions based on members' income have been maintained. The different national reforms can be divided into three models, each with its own combination of public and private insurance and, consequently, with its own financial structure, access conditions and benefits.

The first model introduces private insurance with individual equivalence, competition in insurance provision and structural segmentation, an example of this approach being the reform carried out in Chile in 1981. With this model, the private contributory scheme makes no provision for solidarity within the system in the form of cross-subsidies; these are a feature of the public-sector insurance system, but within the private scheme they can only be provided out of the public budget (external to the system). The distinctive features of the second model are collective equivalence, universal insurance, competition among administrators of the single insurance plan chosen by subscribers and progressive integration of segmented structures. One example is the 1993 reform in Colombia, where a single national fund and per capita premium[13] brought in the element of solidarity. For poor and informal groups there is a single insurance system, subsidized by public funds and transfers from members of the contributory system. The third model, of which the reform carried out in Costa Rica in 1996 provides an example, works on the basis of collective equivalence and universal insurance, with a single fund and administration and an unvarying financial structure (compulsory tripartite contributions). In this case, the collection, funding and service buying and provision functions have been separated internally to create quasi-markets; in only a few cases are services provided privately.

Eight countries in the region have reformed their pension systems. This has generally involved the creation of individual funding systems with savings accounts that allow benefits to be linked directly to the contributions of each subscriber. The savings go into pension funds managed by private administrators. Under this system, benefits (pension payments) in each individual case are based on the amount saved and the financial yields obtained during the contribution period. To improve financial balance, the reforms have introduced more demanding requirements as regards contribution amounts and periods and the minimum retirement age. The methods used to switch from one system to another and the overall structure of these systems are not the same in all cases, however, and may be divided into three models, whose common features are that the State administers the public components, provides top-up funding for those who do not succeed in accruing the capital needed for a minimum pension, and provides welfare pensions for the

[13] The capitation payment unit (or UPC) is the premium or sum received by the fund administrators. Its amount, which varies according to the subscriber's age, sex and place of residence in such a way as to compensate for differences between individual risks, is not dependent on the amount paid by the individual subscriber. This is a set proportion of wages, of which two thirds is paid by the employer and one third by the employee.

indigent. The State is also responsible for regulating and supervising the private system.

The first model (substitution) abolishes the existing public pension programme and replaces it completely with a new individual funding system; this is the chief characteristic of the pioneering reform introduced in Chile (1981), which was adapted and implemented by Bolivia (1997), Mexico (1997) and El Salvador (1998). With the second model (parallel or dual system), the public programme is not done away with, but loses its exclusivity and runs alongside an individual funding system, with contributors having a choice between the two; Peru (1993) and Colombia (1993) opted for this model. The third model (mixed) maintains a standardized, improved public programme which guarantees a basic universal pension, combined with a new individual funding regime, which provides a top-up pension. An approach of this kind was used for the reforms in Argentina (1994) and Uruguay (1996).

As regards social housing, reforms were geared towards changing the traditional public role whereby the State took direct responsibility for the financing, construction and self-regulation of housing for the poor. Urban reform and demand subsidy schemes were introduced together with certain incentives needed to ensure that market mechanisms could operate in this segment, while credit subsidies tended to disappear. Although funding earmarked for this purpose increased roughly in line with total social spending, and annual housing production in some countries in the region exceeded growth in demand, the housing deficit did not diminish in the 1990s. The greatest impact was achieved by improving the coverage and quality of public services, particularly drinking water provision.

With respect to social safety nets, which are designed to protect the poor during periods or situations of crisis, the 1990s saw the conversion of social emergency and investment funds into more permanent structures, although their lack of specificity has made them vulnerable to budget adjustments. Particular progress was made, however, in developing public agencies responsible for disaster prevention and mitigation, whose response and reaction capabilities are now stronger as a result.

(d) Lessons for further reform

Most of the reforms are relatively recent and are likely to take time to develop their full potential; nevertheless, important lessons can be learned, as long as it is recognized that there is still a long way to go. The reforms implemented hold out the promise of substantial efficiency gains in social services provision, as they have created the conditions for better resource management in the public and private spheres, closer links between resource allocation and performance criteria and the creation of quasi-market mechanisms in public-sector structures.

It has generally been recognized that coverage —which in some social sectors is still insufficient in most of the countries— needs to be expanded. The objective is to move towards universal systems that can protect poor households and those whose income comes from informal work. Consequently, it has been essential to create alternative mechanisms to ensure that paid employment is not a precondition for continuity of access to services and safety nets and that these are not suspended when earnings temporarily cease.

Although fiscal requirements vary with financing structures, the degree of solidarity, income levels and the profile of risks and needs, reforms are unlikely to reduce pressure on public spending in absolute terms. This is because the need for protection is still growing in terms of both quantity and quality; because the sharp divide between public and private structures limits the financial solidarity of higher-income sectors; and because social services are becoming more expensive to provide as their complexity and the quality demanded of them increase.

Moreover, it is undeniable that higher coverage and quality requirements, and recognition for the full range of social rights, which are especially important in the poorest countries, call for a further increase in resources. Thus, for example, the increased demand for social security (health care and pensions) resulting from the demographic and epidemiological transitions requires higher spending, as does the need to expand higher education. Hence, improving management in order to achieve greater efficiency gains is crucial.

Subsidy and beneficiary selection policies have become more effective in achieving the aims of progressiveness and equity in access to social services, and are now perceived as more reliable and credible, although it has to be recognized that they have not always been commensurate with the scale of programmes and the level of supply, information and transparency required.

The region’s labour market structure and per capita income levels have meant that the need to maintain and strengthen solidarity mechanisms in the systems used to finance social safety nets has been central. Efficiency gains have sometimes been achieved at the expense of solidarity. To avoid this, sources of funding need to be more clearly specified, particularly where combinations of general and specific taxes are involved.

In order to protect the population in times of crisis, the countries have had to develop mechanisms, plans and resources capable of being deployed rapidly in response to unforeseen circumstances. There is clearly a need for them to develop forecasting, response and saving mechanisms that enhance their ability to deal with such situations.

Regulatory systems also need to be strengthened to ensure that private participation does not result in the exclusion of those who are on low incomes, work in the informal sector or have higher levels of risk. When the public-private mix is determined, each sector's role in financing, provision and regulation must be clearly defined. Experience shows that a poor public-private mix has negative effects on equity and efficiency. Thus, for example, one result may be risk selection or "market skimming", which has adverse effects on equity without reducing the effective demand for resources that the public sector has to meet.

In general, all the reforms have revealed a clear need for thorough consideration of the design and implementation of regulatory and supervisory systems, particularly as regards competition practices and access, levels and degrees of protection, quality assurance, public information and conflict resolution. This is still a new area of development, and major efforts are required to strengthen real capabilities and the workings of institutions.

As regards social housing, experience shows that policy in this area needs to be supplemented by a variety of measures: the design of incentives for the development of a competitive private-sector social housing industry which complies with appropriate quality standards (area, distribution, building materials and urban planning criteria); public policies to restrain urban land appreciation and speculation (the main factor pushing up housing costs in cities) and ensure that a minimum level of infrastructure and services is in place; the introduction of financial mechanisms that combine public subsidies, family savings and mortgage loans in an appropriate and expeditious manner; and incentives for self-help home building and improvement, given the extent of the problem of substandard housing and the greater affordability of these approaches for beneficiaries. In the case of extremely poor households, subsidies covering the full cost of the housing unit might even be considered.

Given the scale and diversity of the lessons and challenges emerging from the 1990s, continued reform will require a renewed, broadly based consensus embracing the great majority of economic, political and social actors in each country, so that basic agreement can be reached on the main elements in the social agenda. This consensus has not come easily in the countries of the region, but in the last few years progress has been made, albeit slowly and falteringly.[14] If citizens are committed to a new social development strategy, they are more likely to participate actively in solving problems and attaining objectives, and they will value their social services all the more as the fruit of their own efforts.

[14] The content and pace of reform depend on the social, political and economic characteristics of each country. By this is meant not only the levels of need and quality problems affecting them, which vary enormously from country to country in the region, but also their capabilities, stock of physical infrastructure and degree of commitment.

Chapter VII

Creating opportunities for sustainable development

The scope for creating new sustainable development opportunities is closely related to the way the environmental situation and agenda in Latin America and the Caribbean developed during the 1990s, and to the profound changes that the world's population has experienced, particularly as a result of globalization.

Growing international awareness of the environmental aspects of development has gradually made its influence felt in the region's public policies, resulting in the establishment of institutions and the formulation of government strategies and policies for environmental protection nationally and locally, together with subregional and regional cooperation initiatives. Another result has been the steady emergence of mechanisms through which civil society can participate in addressing sustainable development issues.

Despite the efforts that have been made, though, data on the state of the environment in Latin America and the Caribbean show that the damage has increased further in recent years. This compromises the future development of the region's countries, whose economies largely depend on the sustainability of the productive capacity of ecosystems over the long term.

1. The international environmental context of the 1990s

In the early 1990s, a combination of positive and negative developments in the regional and global situations weakened yet further the ability of current development styles then being applied to respond to new challenges. In addition to the long-standing problems of poverty and inequality, efforts to achieve sustainable growth now had to take account of ecological and environmental constraints and requirements in a complex context of economic globalization.

Since the time of "Only One Earth" (United Nations Conference on the Human Environment, Stockholm, 1972), the concept of sustainable development has inexorably changed the perception of environmental problems. In Stockholm, the emphasis was on the technical aspects of pollution caused by rapid industrialization, population growth and accelerating urban expansion. This excessively technocratic approach assumed that pollution problems would be overcome by technological progress. The notion of sustainable development was popularized in 1987 with the publication of "Our Common Future" (also known as the Brundtland Report), and given a further impetus by the United Nations Conference on Environment and Development held in 1992 (Rio Conference).

The early 1990s, which were a time of profound change, also displayed encouraging signs of real movement in the international environmental agenda. The Rio Conference represented progress in many respects. The foundations of sustainable development were consolidated on the basis of a new approach to global environmental issues which, as the decade progressed, became increasingly interwoven with globalization, a process that until then had been confined to economics. The concept of sustainable development was put on the international agenda, not just where the treatment of environmental issues by the community of nations was concerned, but also in relation to other matters such as poverty, women, population and human settlements (see chapter 1). At the same time, new opportunities were created for participation by non-State actors, especially the scientific community and the private sector, and the role of non-governmental organizations and civil society was strengthened. The 184 heads of State and government who met in Rio de Janeiro recognized the global nature of environmental problems and their inseparability from key development problems. For example, although the production and consumption of fossil fuels may have quite localized consequences, nobody can escape the effects of climate change. Accordingly, one of the key ideas for successfully confronting international environmental issues that emerged on that occasion was the need to think globally and act locally.

The Rio Conference consolidated an emerging international environmental regime, given substance by a new generation of global agreements and conventions and by a programme of action (Agenda 21) designed to guide the transition towards a sustainable development style. The main pillars of this new international regime include the so-called "precautionary principle". This is a genuine revolution in legal and public policy terms, as for the first time it is recognized that when the environment is in danger of suffering irreversible damage or alteration, a lack of scientific certainty cannot be used to prevent corrective measures being adopted or justify failure to do so. It was also recognized that developed countries had a different order of responsibility from developing ones when it came to remedying negative global externalities resulting from the formers' history of industrialization (the principle of common but differentiated responsibilities). It was thus agreed that the immediate steps to reverse environmental deterioration should be taken by the industrialized countries and be based on more equitable international cooperation.[1] The principle of common but differentiated responsibilities can be viewed as an international version of another principle known as "polluter pays", which is widely incorporated into many countries' environmental regulations, and which makes the agent causing the pollution legally responsible for indemnifying the damage caused.

Despite this progress in the domain of international law and the major efforts made to negotiate and consolidate the multilateral environmental agenda, institutional and operational progress and results in terms of concrete policies to achieve sustainability continue to be very slow in coming. This is particularly true as regards the investment amounts needed to implement Agenda 21, estimated at US$ 600 billion a year. The magnitude of this figure shows that the transition of developing countries towards sustainable growth paths is a huge investment challenge. The international macroeconomic climate of the 1990s, however, prevented the necessary funds from being mobilized.

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[1] In 1991, the Global Environmental Facility (GEF) was created to help developing countries finance the additional costs they would face in addressing environmental problems of global scope (loss of biodiversity, climate change, depletion of the ozone layer and other issues related to international waters and desertification). By 1998 the financial contribution of GEF had totalled over US$ 2 billion, of which about US$ 400 million had gone to finance projects in Latin America and the Caribbean. The agencies operating this fund are the World Bank, the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP); most of its financing comes from developed countries.

Another issue that came to feature prominently on the international agenda was the potential for conflict between national environmental regulations and the multilateral free trade disciplines administered by the World Trade Organization (WTO). For example, environmental regulations adopted by countries (phytosanitary regulations, ecological labelling, technology standards and specific processes, among others) could act as non-tariff barriers and be manipulated for protectionist purposes. Environmental regulations in industrialized countries could conflict in various ways with those in force in developing countries. Table VII.1 sets out some of the aspects of the common trade and environment agenda that have been studied by WTO.

2. Institutional progress in relation to environmental management

Growing awareness of the environmental aspects of development has gradually been informing the region's public policies and economic and social practices, and has led to the creation of institutions and the implementation of government strategies and policies for environmental protection and the diffusion of sustainable development concepts in the education system, culture, the communications media, social demands and business practices. Despite this progress, many production sectors and not a few government economic policy makers continue to view the principles of environmental protection and sustainability as a hindrance to development. In addition, sustainable development has been regarded as being synonymous with environmental management, and thus of little relevance to existing economic and financial institutions.

The adjustments made in the wake of the economic crisis that buffeted the region in the 1980s, compounded by frequent macroeconomic disturbances in the 1990s, had a negative effect on environmental institutions that had only recently been created and were not strong enough. The need to curb public spending restricted the scope for undertaking environmental impact studies and environmental audits, or for following up pre-investment studies that predicted major environmental consequences. In practice, the ability of the public sector to halt the worsening environmental deterioration of critical ecosystems and control pollution was seriously undermined.

Table VII.1
TOPICS INCLUDED IN THE WORK PROGRAMME OF THE WORLD TRADE ORGANIZATION (WTO) COMMITTEE ON TRADE AND ENVIRONMENT

Topic	Observations
1. Trade-related environmental measures (TREMs)	The relationship between the rules of the multilateral trading system and trade-related environmental measures (TREMs), including those contained in multilateral environmental agreements (MEAs).
2. Environmental measures with effects on trade	The relationship between the rules of the multilateral free trade system and environmental policies and measures with significant effects on trade.
3. Product surcharges, taxes and standards (including packaging and labelling)	The relationship between the rules of the multilateral trading system and (i) surcharges and taxes for environmental purposes; (ii) environmental product requirements, including standards, technical regulations, packaging, labelling and recycling.
4. Transparency of environmental measures	Provisions in the free trade system relating to the transparency of trade measures used for environmental purposes and environmental measures and requirements with significant effects on trade.
5. Dispute settlement	The relationship between dispute settlement mechanisms in the multilateral trading system and those contained in multilateral environmental agreements.
6. Access to markets and environmental benefits as a result of trade liberalization	Analysis of the effects of environmental measures on access to markets, especially for developing countries, and to the environmental benefits of removing trade barriers.
7. Export of domestically prohibited goods (DPGs)	Study of export trade in goods that cannot be traded in the producing country.
8. Agreement on trade-related aspects of intellectual property rights (TRIPs)	Includes aspects relating to technology transfer, genetic and biotechnology resources, protection of traditional rights, plant patents and the control of environmentally hazardous technologies.
9. Trade in services	Study of the interaction between trade in services and environmental protection.
10. Relations with non-governmental organizations	Agreement on appropriate mechanisms for establishing a relationship with non-governmental organizations as set out in WTO article V and the documentation on transparency.

Source: K.P. Ewing and R.G. Tarasofky, “The Trade and Environment Agenda. Survey of Major Issues and Proposal: from Marrakesh to Singapore”, *Environmental Policy and Law Paper*, No. 33, Gland, Switzerland, World Conservation Union (IUCN)/ International Council of Environmental Law (ICEL), 1997.

(a) Regional and subregional initiatives

In response to the new international situation, the countries of the region established or strengthened a number of major regional and subregional cooperation processes and mechanisms. In some cases, existing schemes were extended to take in environmental issues, one example being the Amazon Cooperation Treaty, signed in 1978, which provided the framework for the 1989 Special Commission on the Environment of the Amazon Region. In other cases, supranational cooperation was built around the relationship between the environment and sustainable development. Lastly, an environmental dimension was built into the institutional structure of most trade and integration treaties, and in some cases into the obligations stemming from such treaties as well.

In Central America and the Caribbean there are a number of subregional environmental cooperation initiatives. These include the Programme of Action for the Sustainable Development of Small Island Developing States in the Caribbean, approved in Barbados in 1994, and the Alliance for Sustainable Development of Central America (Alides), which was set up in 1994, and whose aim is to strengthen integration among the countries of the Central American isthmus on common sustainable development foundations. The Central American Commission on Environment and Development (CACED), instituted in 1989, has gained in importance as the subregional forum for environment ministers or equivalent authorities. Under its auspices, a series of subregional agreements have been proposed on biodiversity, hazardous waste, forests and other issues, on which common positions have been adopted for the first time, the result being a portfolio of environmental projects and a successful financial strategy. One of the most interesting initiatives is the Mesoamerican Biological Corridor.[2] Here, regional cooperation in pursuit of the environmental goal of conserving biodiversity has made it possible to integrate bio-regional planning[3] into the process of reconstructing and

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2 Mesoamerica, also known as Middle America, is defined as the region encompassing the five southern states of Mexico, Belize and the six countries of the Central American isthmus (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). The region contains great geological, geographical, climatic and biotic diversity, accounting for about 7% of the world's total biodiversity. The Mesoamerican Biological Corridor programme was approved in 1997 at the nineteenth Summit Meeting of Central American Presidents, and it receives financial support from GEF.

3 A bioregion is an area defined by the inter-relationship between ecological systems and human communities in a given territory. It represents the geographical and social space needed to ensure the reproduction of nature while allowing this natural wealth to be used in human activities aimed at improving the quality of life for present and future generations.

modernizing Central America and southern Mexico, while also strengthening other regional cooperation initiatives relating to energy and tourism.

There have also been activities aimed at implementing the agreements reached in Rio de Janeiro. These include the creation of the Forum of Ministers of the Environment of Latin America and the Caribbean, which is participated in by more than 30 ministers, heads of organizations and environmental commissions from the region. The Forum meets every two years to discuss specific regional problems and to exchange ideas on proposals to be presented in global forums and on regional cooperation agreements. The meetings held in Havana (1995), Buenos Aires (1996), Lima (1998) and Barbados (2000), together with the Conference on Environmental Management held in Washington in 1998, have helped consolidate the Forum as an effective mechanism for establishing regional positions.

Negotiations in connection with the United Nations Framework Convention on Climate Change and the Kyoto Protocol identified the need to strengthen regional positions and exchange information on proven energy efficiency measures that can help reduce carbon emissions. In addition, countries such as Brazil and Costa Rica played a leading role in designing and negotiating the clean development mechanism (CDM) proposed in the Kyoto Protocol, which represents the first step towards a global market in carbon emissions.

A number of countries are preparing to play a full part in global negotiations. Thus, for example, several have completed their national reports on the climate change convention, including inventories of greenhouse gases and research into different ways of mitigating and adapting to this phenomenon. The national reports prepared by Argentina and Mexico are particularly noteworthy, as is the energy use experiment conducted in Rio de Janeiro in Brazil with the participation of several sectors.

Although the region’s trade and integration agreements and treaties have historically contained few or no clauses on environmental protection, countries are facing growing pressure to incorporate environmental components into these agreements as they increasingly participate in international markets and forge links with trade blocs that make stringent demands in this respect.

The explicit treatment given to environmental issues in the North American Free Trade Agreement (NAFTA) and, to a lesser extent, in MERCOSUR and the Andean Community, are signs of an incipient change in direction. The way environmental conditions are incorporated into these trade treaties is likely to be an important reference point for future negotiations. Given the need for compatibility, it is very likely that the countries will be forced to adopt more advanced regulations, and they may even benefit from the transnationalization of environmental issues and citizen pressure in this regard.

Although the MERCOSUR treaty was signed during the year of preparations for the Earth Summit (Rio de Janeiro, 1992), it gave little consideration to environmental issues. In August 1994, an initial step was taken with the approval of basic environmental policy guidelines that proposed targets to be included in member States' environmental policy and legislation. One year later, ministers agreed that a working subgroup on the environment should be set up with the task of formulating and proposing strategies and guidelines to guarantee environmental protection and integrity. In the Andean Community, whose history goes back to 1969, the issue was first embraced only as recently as 1998 with the creation of the Andean Committee of Environmental Authorities, whose mission is to advise and support the General Secretariat on environmental policy in the Community.

The NAFTA agreement, signed by the Governments of the United States, Canada and Mexico, came into force on 1 January 1994. Subsequently, two side-agreements on cooperation were included, one dealing with labour issues and the other with the environment. The attention given to the latter was unprecedented in the history of trade treaties. Both the main text and this side-agreement contained explicit provisions on the environment for the first time ever, for which reason it has been considered the greenest trade treaty ever signed. As such, it represents a landmark and perhaps a turning point in the history of trade treaties. It is important to stress that neither the treaty itself nor the agreement impose their own environmental standards; rather, they give each country's authorities the right to set the environmental protection levels they consider most appropriate and to promote environmental improvement insofar as this lies within their power. The Agreement on Environmental Cooperation accompanying the Canada-Chile Free Trade Agreement, which came into effect in 1997, took a similar approach.

This tendency to include environmental issues in trade agreements has met with strong resistance, however, in the negotiations to establish the Free Trade Area of the Americas (FTAA) initiated at the first Summit of the Americas (Miami, 1994). Environmental issues have so far been excluded from these negotiations because of pressure from Latin

American countries,[4] which fear environmental regulations might be used for protectionist purposes by the United States and Canada. Outside the sphere of trade negotiations, agreements on environmental issues were built into the Plan of Action for the Sustainable Development of the Americas, approved in Santa Cruz de la Sierra in 1996.

(b) National environmental policies

The Rio Conference gave a new impetus to two basic environmental management strategies. The first favours the formulation and execution of environmental policies in their own right, while the second aims to incorporate environmental policies into other public policies. Most of the countries adopted the first strategy and set up specialized environment ministries that take an integrated approach to the issues of environmental pollution, natural and water resource management and sustainable development. Some countries opted for the second strategy, however, and created intersectoral environment councils or commissions. Table VII.2 sets out the changes made to environment-related regulatory and institutional frameworks in a number of the region's countries between the 1980s and 1990s.

The global conventions agreed in 1992 have also led to a number of important institutional changes, and to the establishment of innovative cooperation mechanisms. For example, most countries either have created or are in the process of creating specific bodies such as commissions, institutes and national programmes on biodiversity. In addition, a start has been made on conducting evaluations, such as national reports providing inventories of greenhouse gases, to fulfil the terms of the climate change convention.

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[4] While reaffirming the commitment to establish the Free Trade Area of the Americas (FTAA), the declaration issued at the Eleventh Summit of Heads of State and Government of the Rio Group (Asunción, 1997) states that "the relationship between trade and the environment (...) should be dealt with exclusively (...) by the Committee on Trade and Environment of the World Trade Organization (WTO)".

Table VII.2

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): ENVIRONMENTAL REGULATIONS AND INSTITUTIONS

(Inter-decade comparison)

Country	1980s	1990s
	Highest authority and legal structure governing environmental issues	Highest authority and legal structure governing environmental issues
Argentina	Office for Environmental Policy (secondary level in ministry); in the late 1980s, Special Commission; low effectiveness	Secretary of Natural Resources and Sustainable Development (State ministry);[a] Federal Environmental Council; specific agencies in each province
	Sectoral laws, mainly concerning natural resources; specific regulations; few standards	Some sectoral laws; deregulation laws with an environmental component; constitutional reform; few standards or environmental impact assessments
Bolivia	Presidential Advisory Commission; Under-Secretary of Renewable Natural Resources and Environment (in the Ministry of Campesino Affairs and Agriculture)	Vice-ministry of Environment, Natural Resources and Forest Development (within the Ministry); Sustainable Development Council; decentralization
	Some sectoral laws, very weakly applied; limited standards	Parent law and complementary sectoral laws; adequate regulations and standards; sectoral environmental impact assessment
Brazil	Special Secretariat for the Environment (SEMA) (State ministry); National Council for the Environment (Conama), coordinating body; Brazilian Environment and Renewable Resources Institute (Ibama), executive body	Ministry of the Environment, Water Resources and the Amazon Treaty Region; National Council for Natural Resources and Inter-Ministerial Commission for Sustainable Development
	National Environmental Policy Act; constitutional reform; general environmental impact assessment; majority of standards	National Environmental Policy Act in force; new modernized sectoral laws; majority of standards and regulations
Chile	Authority dispersed among sectors; National Energy Commission (Conade) exists as coordinating body, but the little action there is is weak	National Environment Commission (Conama), collegiate coordinating body, chaired by Council of Ministers, decentralized agencies in each region
	Political constitution; water and mining codes; sanitary laws, some standards	Parent law; specific regulations; new sectoral laws; adequate standards; national system of environmental impact assessment
	Renewable Natural Resources Code; sectoral laws with regulations, mostly relating to sanitation	Natural Resources Code in force; constitutional reform; parent law and new sectoral laws; adequate standards and regulations

(Continued)

Table VII.2 (concluded)

Country	1980s	1990s
	Highest authority and legal structure governing environmental issues	Highest authority and legal structure governing environmental issues
Colombia	Environmental authority dispersed among various institutions; National Institute for Renewable Natural Resources and the Environment (Inderena), coordinating body; incipient decentralization process	Ministry of Environment; National Environment System (Sina) and National Council for the Environment; decentralization process
	Renewable Natural Resources Code; sectoral laws with regulations, mostly relating to sanitation	Natural Resources Code in force; constitutional reform; parent law and new sectoral laws; adequate standards and regulations
Costa Rica	Ministry of Natural Resources, Energy and Mines; Ministry of Health (dispersed authority). National Environment System (Sisnama) and National Environment Commission (Conama)	Ministry of the Environment, Energy and Mines; Sustainable Development Council; decentralized environmental management
	Sectoral laws, emphasizing sanitary protection and limits on the exploitation of natural resources; few standards	Constitutional reform; parent law; some new sectoral laws; improved standards and regulations; limited environmental impact assessment
Jamaica	Sectoral dispersion: authority vested in two under-ministries (Natural Resources and Health); executive body at departmental level in ministries	Specific under-ministry and executive-level body responsible for coordination among sectoral offices and local authorities
	Old sectoral laws; few standards	Parent law and other new sectoral legislation; system of environmental permits and licences; limited standards
Mexico	Ministry of Urban Development and Ecology (Sedue), at ministerial level, with an Under-Secretariat (or Vice-Ministry) of Ecology	Secretariat of the Environment, Natural Resources and Fisheries (ministerial level)[b] and National Council for Sustainable Development
	Federal environmental parent law, plus sectoral laws; constitutional reform; environmental impact assessment; minimum standards and regulations	Reformed federal environmental parent law, modernized sectoral laws; majority of standards and minimum regulations
Peru	Ministerial departments of health and agriculture; other sectoral offices; National Office for the Evaluation of Natural Resources (ONERN), at executive level	National Environmental Council (Conam), limited coordinating body, chaired by the Council of Government Ministers; environmental responsibilities by area
	Non-integrated sectoral laws; political constitution; sectoral regulations; few standards	Amended Natural Resources Code; deregulation laws with an environmental component; constitutional reform; minimum standards and environmental impact assessment

Source: Guillermo Acuña, Marcos regulatorios e institucionales ambientales de América Latina y el Caribe en el contexto del proceso de reformas macroeconómicas: 1980-1990 (LC/R.2023), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 2000.

[a] The Secretary remain with this structure until December, 1999. After that, the new administration downgraded the Secretary and went back to the institutional framework of the eighties. [b] This secretariat changed in 2000 when "Fisheries" was move to the Secretary of Agriculture.

Major progress has also been made with environmental legislation. General environmental laws have been enacted, and a range of technical standards and instruments have been brought into operation for planning (land-use management and environmental impact assessments), pollution control and environmental engineering, conservation of protected areas and ecological restoration. The purpose of most of these laws, regulations and standards has been to strengthen environmental policies of the command-and-control type.

Macroeconomic and sectoral policy decisions also contain an implicit environmental component.[5] There is no certainty as yet about the likely effects that the new approaches to economic management will have on the environment, although the relative weight of sectors that make use of natural resources has increased in many countries. If economic policies in the agriculture, energy and industrial and urban development sectors are considered jointly in this context, it transpires that there are significant contradictions in relation to the environment, which means there is a need for environmental policies and management tools to be reviewed and analysed in depth. Meanwhile, policies encouraging land take-up, which have been one of the leading causes of deforestation in some places, are being used less now than in the past.

In most cases, decisions by economic agents that affect the environment are made in response not to signals from the environmental regulatory framework, but to measures taken by the economic authorities. Most explicit environmental policies in the region are reactive, and their purpose is to abate the adverse effects of production and consumption. Nearly all public-sector environmental bodies concentrate on solving urgent problems caused by the polluting effects of urban and industrial expansion, deforestation, soil erosion, the depletion of marine resources and contamination caused by mining activity (Gligo, 1997). Environmental policies of a preventive nature, whose main instruments are land-use management and environmental impact assessment, have received less attention.

As will be seen later, analysis of the environmental situation shows that the countries of the region have not been able to call an effective halt to ecological deterioration and pollution, despite new constitutional and legislative frameworks and high-level institutional schemes. Although

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5 Macroeconomic policies with an implicit environmental component include trade and export development, fiscal and foreign investment policies. Interest rate management also has a major influence on the environment because of its influence on agents' inter-temporal preferences. Sectoral policies with a major environmental impact include those relating to industrial development, energy, agriculture and forestry, along with urban development, infrastructure and transport policies.

significant progress has been made with environmental legislation, actual enforcement and compliance are generally very unsatisfactory. The behaviour of the agents mainly responsible for environmental degradation has not changed as much as the legislation envisaged, and it is rare for fines actually to be levied for illegal conduct. Society perceives the existence of large enclaves of impunity, and this undermines the prestige of laws and standards as suitable tools of environmental management, while detracting from the credibility of the institutions responsible for oversight and management.[6] Evaluation of different experiences reveals the key role played in environmental development by the consolidation of strong institutions capable of responding to economic and social policy challenges. Frequently, environmental authorities are obliged to negotiate with their economic counterparts from a position of patent weakness.

Comparative analyses of environmental management have focused on executive agencies, with little being said about the role of the legislature and judiciary. Most of the countries have set up specialist environment commissions in parliament, thereby helping to promote legislative debate on these issues. Nonetheless, there is a need to review and strengthen the capabilities of legislatures so that they can respond better to citizen demands. It is also worth highlighting the increasing role of the judiciary in protecting diffuse rights, and in designing and implementing procedures to deal with environmental offences. This suggests that it would be advisable to consider what role could be played by ombudsmen and public prosecutor's offices as mechanisms to promote environmental justice.

(c) Local activities

Environmental powers have been transferred to local governments as a result of decentralization, but in many countries there is a worrying absence of policies for urban areas (see chapter 9). Municipal governments have responsibilities that include implementing environmental controls, punishing infringements, responding to environmental emergencies and coordinating programmes and projects aimed at improving the environmental situation in their jurisdictions. The importance of the local level and of the change that has occurred in the

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[6] In a survey on the implementation of environmental regulations conducted in 1998 by International Environmental Monitor and Environics International, a very high percentage of interviewees considered that environmental laws and regulations were currently not being enforced rigorously enough. This was the opinion of 87% of respondents in Argentina, 86% in Colombia, 78% in Venezuela, 74% in Chile, 71% in Mexico, 67% in Uruguay and 61% in Brazil.

pattern of development is recognized not only nationally but also in international agreements, such as Agenda 21.

Although some local authorities have tried to see that environmental regulations are implemented in a concerted fashion, little has been achieved so far. There are a number of reasons for this. Firstly, the environment is not a priority on local government agendas. Secondly, medium- and long-term planning is needed if environmental development is to have a perceptible effect, and the length of government terms of office militates against this. Lastly, there is little horizontal coordination between municipal authorities.

At the local level, urban environmental problems are particularly important. The occupation of hillsides, ravines, areas that have suffered desertification and riverbeds is one example. When extreme weather phenomena or other natural disasters occur, the extent of the incompatibility between the natural and built environments becomes manifest.

Urban environmental problems are also related to efforts to meet basic needs in order to raise the quality of life of the population. In many of the region's countries, the provision of sanitation infrastructure has improved compared to the deficits of the past and in relation to new demand (see chapter 5). Clearly, however, there are still many problems with the way new needs are met, the efficiency of suppliers, service costs, price structures and the environmental consequences of the methods used. Cities have made progress in remedying long-standing deficiencies in the scale, coverage and maintenance of infrastructure networks, but other urban problems such as congestion and pollution have worsened.

The international community's response to urban problems is contained in the Habitat Agenda, approved at the United Nations Conference on Human Settlements (Istanbul, 1996), which focuses on the sustainability of human settlements in an urbanizing world. It is also set forth in Agenda 21, particularly in chapter 7, which discusses the enabling approach. The Habitat Agenda encourages joint efforts by the public and private sectors and local communities to enhance the economic, social and environmental quality of living and working conditions in human settlements, particularly where the poor are concerned.

3. Other actors

Preparations for the Rio Conference stimulated domestic debate on the different issues connected with sustainable development as countries established their negotiating positions for Agenda 21, the conventions on biological diversity and climate change and, subsequently, the United Nations Conference on Desertification (UNCOD). The keen interest shown by scientists and public, private and social organizations resulted in unprecedented levels of participation. Important institutions, such as national sustainable development councils, came into being. The structure of these opened up the decision-making process to the private and social sectors, and to citizen and academic organizations.

(a) Production sector initiatives

In recent years, large corporations and business groups have played a larger part in the debate on the emerging issues of sustainable development that has opened up nationally, regionally and worldwide. Global initiatives by the International Chamber of Commerce (ICC) in the late 1980s, and by the World Business Council for Sustainable Development (WBCSD) in the early 1990s, influenced the positions and actions of large corporations in Latin America and the Caribbean, which began to build environmental management policies into their business programmes.

These corporations created the Business Council for the Sustainable Development of Latin America (CEDSAL), essentially in response to the Rio Conference and with the aim of organizing their participation in the environmental debate. This Latin American chapter of the global network, which was fully consolidated in 1997, currently represents over 300 companies from the region and has spawned national and subnational councils in its turn (see table VII.3). The activities it participates in range from researching, analysing and solving sustainable development problems to promoting education and training in the business sector. At times it has taken a different position from the public sector on new regulations. Nonetheless, it can be said that the attitude of business has generally been positive, for not only did it organize itself to participate in the debate, but it has also embarked upon a major process of technical re-fitting to improve its environmental performance. One example of this is its active participation in the creation of national clean production centres, which reconcile private-sector interests with those of public agencies responsible for science and technology development.

Voluntary initiatives by the private sector to improve its environmental performance are gaining importance throughout the world. In the European Union, for example, voluntary agreements between private agents and regulatory bodies are the cornerstone of environmental management strategy. Private industry began to implement environmental policies in response to increasing consumer demand for products that met high environmental standards and the growing ability of the public to discriminate on this basis. Because of this market development, achieving a reputation as an environmentally responsible business has become an asset of no less importance than other competitive advantages, particularly in the case of Latin American and Caribbean firms exporting to the United States and European Union markets.

Table VII.3
ORGANIZATIONS REPRESENTED ON THE BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT - LATIN AMERICA (CEDSAL)

Country	Organization
Argentina	▪ Argentine Business Council for Sustainable Development (CEADS)
Brazil	▪ Brazilian Business Council for Sustainable Development (CEBDS)
Costa Rica	▪ Costa Rican Business Council for Sustainable Development (Cemcodes)
	▪ Latin American Corporation for the Promotion of Small Eco-Efficient Enterprise (Propel)
Colombia	▪ Development Corporation (Codesarrollo)
El Salvador	▪ Salvadoran Business Council for Sustainable Development (Cedes)
	▪ Salvadoran Business Council for Sustainable Development (Cedes)
Honduras	▪ Honduran Business Council for Sustainable Development (Cehdeso)
	▪ Private-Sector Centre for Sustainable Development Studies (Cespedes)
Mexico	▪ Business Council for the Sustainable Development of the Gulf of Mexico (Cedes-GdeM)
	▪ World Environmental Management Initiative (Gemi)
Peru	▪ Peru 2021
	▪ Venezuelan Business Council for Sustainable Development (Cevedes)
Venezuela	▪ Business Leadership Programme for Sustainable Development (PLEDS)

Source: Business Council for the Sustainable Development of Latin America, 2000.

Another important factor has been the increasing determination of the communications media and organized civil society to draw attention to irresponsible environmental behaviour, in both public and private industry. As a result of this attitude, and of the increasing transparency of information on environmental performance, image and incentives have come to be powerful factors in determining the behaviour of large local and transnational firms. This dynamic has not operated in the same way among small and medium-sized enterprises, which have a lower public profile, so regulatory pressure has been the only factor driving improvements in environmental performance among such enterprises.

ISO 14000 certification is one of the mechanisms firms use to show that they are environmentally responsible. These standards govern the way companies' management systems needs to be organized to deal with environmental issues and the impact generated by their operations, by eliminating processes that are potentially harmful to the environment. In many regions and industries such certification is expected to become a necessary condition for doing business. Information on Latin America and the Caribbean shows a very substantial increase in the number of certified firms, from 15 in 1996 to 311 in 1999. As table VII.4 shows, Argentina and Brazil have the largest number of certified businesses in the region.[7]

Another mechanism is environmental product certification. An example of this is provided by the Forest Stewardship Council, set up in 1993 to promote sustainable forestry activity. Timber and other forestry products with this certification can display the registered trademark of the organization, thereby enabling consumers to satisfy themselves that the product they are buying comes from a forest managed in accordance with internationally agreed environmental and social principles and criteria. Table VII.4 also gives data on the certification of forests in Latin America and the Caribbean. Another similar example is the Marine Stewardship Council, which was created in 1997 to promote the sustainable exploitation of marine resources. Participants in these councils include businesses, environmental and consumer organizations, labour unions and the scientific and academic communities.

(b) Civil society involvement

The democratization process has created greater scope for participation by civil society actors in the search for solutions to citizens' environmental demands. The changes that have taken place mean that such demands can be expressed not just in terms of rights that deserve recognition, but as a joint effort by all societal actors, both

[7] This trend has increased in the early 2000s. By mid 2002 the number of firms certified was: Brazil (700), Mexico (266), Argentina (209), Colombia (41), Uruguay (29), Chile (17) and Peru (15). See ISO World 2002. The Number of ISO 14001/EMAS Registration of the World (http://www.ecology).

public and private, to find solutions to shared problems, even if their rationales differ.

Table VII.4
LATIN AMERICA AND THE CARIBBEAN: ENVIRONMENTAL CERTIFICATION IN THE BUSINESS SECTOR

ISO 14001 (number of firms certified as of December 1999)	Brazil (146), Argentina (81), Mexico (60), Colombia (7), Chile (5), Barbados (3), Costa Rica (3), Uruguay (2), Guatemala (1), Peru (1), Ecuador (1), Honduras (1), Venezuela (1)
Forests certified by the Forest Stewardship Council (FSC) (land area in hectares as of March 2000)	Brazil (665,558), Bolivia (660,133), Mexico (162,054), Guatemala (100,026), Belize (95,800), Costa Rica (40,153), Honduras (19,876), Panama (23)

Source: ISO World, “The number of ISO14001/EMAS registration of the world” (http://www.ecology.or.jp/isoworld/english/analy14k.htm), 2000, and Forest Stewardship Council, “Certified Forest List” (http://www.fscoax.org/html/5-3-3.html), 2000.

In the public sector, increasing numbers of governments are implementing new forms of participation, both locally and nationally, to enable citizens to take part in environmental impact assessment procedures and to understand and participate in decision-making mechanisms, especially when the decisions concerned could affect their own communities. Political culture is a key factor in the implementation of environmental policies. At the local level, this culture is generally characterized by a virtual absence of citizen participation mechanisms and of instruments for coordinating the interests of all actors. The prevailing social covenant rests on tacit agreements that frequently fail to distribute sustainable development roles and responsibilities clearly among the different actors.

The importance now being attached to civil society involvement in environmental issues is reflected in the North American Free Trade Agreement (NAFTA), which gives considerable space to consultation and dispute settlement procedures. Any individual, social group or organization can approach the Secretariat to report non-compliance with environmental law by any of the three member countries.

Lastly, the Forum of Ministers of the Environment of Latin America and the Caribbean has sought to increase civil society involvement further by recognizing the need to stimulate, facilitate and institutionalize citizen participation in regional, national and local environmental management and to achieve more explicit recognition of the rights and responsibilities of each sector of society. In order to encourage the growth of environmentally responsible citizenship, strategies are also needed for attaining a fuller understanding of environmental issues at every level of education, complemented by training that targets all social sectors.

4. Environmental policy instruments

A now traditional classification of environmental management tools draws a distinction between direct and indirect regulation.[8] Direct regulation tools include land-use management policies, rules on conservation and resource use (energy efficiency, for example), environmental impact assessment and the licensing system that follows on from this. Indirect regulation tools can be subdivided into fiscal and financial instruments, rights of ownership and use, and tradable rights or quotas. Fiscal and financial instruments can be applied to reduce subsidies that lead to harmful environmental effects and reassign them to activities with a positive impact, to pay explicitly for ecological services, to levy charges for the right to use or exploit natural resources and make harmful activities more expensive, and to finance investment in environmentally friendly assets and services, research and the adoption of clean technologies.

Within their various legal and institutional frameworks, all the region's countries make use of direct regulation, but there is little information on the way laws, regulations and legal rulings are actually enforced in practice. Recent years have seen a significant increase in the number of legal provisions directly regulating a variety of issues, such as the conservation of biodiversity, the treatment of solid and hazardous wastes, the conservation of fish stocks, air and water quality and pesticide use, among other things. Some countries also have systems to apportion liability and compensation in the event of environmental damage.

The preparation of environmental accounts, including periodic audits of the natural asset base and the production of statistics on the state

[8] The classification of environmental policy tools is a controversial issue. Much of the literature on the subject distinguishes between "economic incentive (or market)" instruments and "command-and-control" instruments, the latter normally including whatever is left out of the former group. Some authors reject this dichotomous approach and the use of the term "command and control" to describe all instruments not consisting of economic incentives, and accordingly propose a different classification (Russell and Powell, 1997). Again, the instruments traditionally included in the "command-and-control" group need to be analysed from an economic standpoint, since insofar as they affect agents' decisions and behaviour, they generate environmental and financial costs and benefits which need to be taken into consideration. This argument has led to attempts to measure the cost-effectiveness ratio of specific instruments used, regardless of their characteristics (Giner de los Ríos, 1997).

of the environment generally, are necessary elements in any strategy. Nonetheless, most of the countries in the region are still far from having in place the information systems needed for decision-making, public policy evaluation, environmental monitoring and a constant supply of adequate information to citizens. Nor do they have indicators that can be used to track the state of the environment on a comparative basis (UNDP/UNEP/IDB, 1998).

Although the curtailment of subsidies for public services over the last two decades has had positive environmental effects, these have been indirect and thus generally minor. Greater effects might be achieved if firms were encouraged to take a proactive approach, striving for continuous improvements in their environmental performance and investing to preserve environmental resources that they use as input sources or dumps for their production activities. For example, hydroelectric power companies could be encouraged to invest in water sources and thermoelectric ones in clean production. Some countries have successfully used reputation incentives to persuade firms to adopt this type of behaviour. For example, the environmental authority might use public communications media to publicize an objective environmental performance ranking of different regulated organizations, thereby encouraging them to work to improve their rating and thus protect their corporate image in the market. In addition, as happens in industrialized countries, private efforts need to be complemented by programmes fostering innovation and the adoption of cleaner production technologies, especially in segments with limited technical resources, such as SMEs. These programmes generally involve outreach activities, technological information, pilot demonstration projects, consultancy programmes and financial facilities specifically for investments in clean production technologies. Again, if a process of improvement in environmental performance is to be generated, technical standards need to be gradually tightened up with a view to enhancing energy efficiency and optimizing other environmental parameters. Collaboration mechanisms will also need to be created with the private sector so that incremental efficiency improvement targets and public or joint public-private investment in new technologies can be agreed upon.

The creation of markets in environmental services is an instrument of great potential, but its use requires appropriate institutional support. Several countries have implemented initiatives of this type: in 1996, pioneering legislation in Costa Rica gave recognition to some of the environmental services provided by forests,[9] and a mechanism was

[9] Law 7575 defines environmental services as those which “the forest and forestry plantations provide, which have a direct effect on environmental protection and

established for paying their owners for them. Other countries, such as Colombia and Guatemala, have experimented with charges for the use of water from river basins; these have to be paid by the downstream beneficiaries and the revenues are used to finance upstream conservation activities. This system creates a market for an environmental service (sustained provision of water in the river basin) whose stability and continuity are guaranteed by compensating landowners in the upper river basin for their opportunity costs, while preventing such areas from being turned over to other economic uses.

Internationally,[10] the first serious initiative to create markets for global environmental services came within the framework of the Kyoto Protocol (United Nations Framework Convention on Climate Change), in the form of the “clean development mechanism” (CDM). This initiative aims to create the conditions for a market in tradable certificates representing net reductions in greenhouse gas emissions. This market would operate among the industrialized countries that have signed the convention and undertaken to cut their emissions, and developing countries, which are not subject to such commitments, but where projects to reduce global emissions can be implemented at lower cost. In the region, Brazil and Costa Rica have played a pioneering role in international negotiations to conceptualize this mechanism within the framework of the Convention. A number of countries (such as Colombia and Costa Rica) are also making institutional efforts to become active providers of internationally tradable certificates, trusting that this market will soon be consolidated. Although negotiations on the multilateral regulations of CDM have not yet concluded, these national efforts have already contributed to the development of a fledgling market in projects to achieve net reductions in greenhouse gas emissions in some of the region’s countries. Most of the initial demand for such projects has come from large multinational energy companies that have taken a strategic business decision to be at the forefront of progress in the international climate change agenda and to develop their capabilities in this new market.

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improvement”. They include the following: (i) protection of water for urban, rural or hydroelectric use; (ii) abatement of greenhouse gases; (iii) protection of biodiversity to conserve it and provide the basis for sustainable scientific and pharmaceutical use; (iv) protection of ecosystems, life forms and natural scenic beauty for tourist and scientific purposes.

[10] The region has significant comparative advantages in respect of carbon dioxide emissions, because the primary energy used for electricity generation is mainly derived from quite clean sources (water and natural gas account for 81%), and there are abundant forest resources. In addition, the region has one of the world’s lowest CO_2 emission rates, estimated at 4.28% in 1990 by the Intergovernmental Panel on Climate Change (IPCC) (IDB, 1998a).

The establishment of protected areas for biodiversity conservation is another very widely used land-use management tool in the region. Other examples include plans implemented in Chile to regulate economic development in the communes and the Costa Rican scheme to control coastal development. Several countries (Argentina, Brazil, Chile, Colombia, Costa Rica and Peru) have environmental policy instruments of a preventive type, such as environmental impact assessment systems and environmental permits. With this system, certain investments (mainly infrastructure projects and production activities) require prior approval from the environmental authority, which can reject the project or make authorization conditional on particular requirements being met.

In recent years, the need to promote effective environmental policies has led to a preference for the use of indirect or economic regulation. This trend has clearly been contributed to by the bad reputation acquired by direct regulation instruments, which have lost credibility because of a lack of effective control. The effectiveness of indirect regulations depends, however, on the efficiency with which markets function, and this in turn depends on the degree of institutional development attained.

With regard to the first of these points, a study that analysed a number of cases covered by the World Bank in its 1992 World Development Report concluded that reforms to price systems were less effective in improving environmental conditions than technical change (Taylor, 1992). This means that cutting subsidies for energy, fertilizers and water use, as proposed in that report, would not produce a significant environmental response, although it might allow for significantly higher public investment in the environment as a result of fiscal savings. Again, considering that the efforts made to control emissions in response to price changes are relatively weak, quantitative controls might be more effective than sophisticated manipulation of the market, especially in the early stages of environmental regulation (Taylor, 1992).

Russell and Powell (1997) believe that institutional capabilities are a key consideration when it comes to choosing a control instrument. These authors argue that setting up and administering an environmental management system based on economic incentive instruments will never be easier than applying a regulatory-type solution. Indeed, in most cases it will be considerably harder. The instruments chosen need to suit the level of institutional development in the country concerned, and countries that have less advanced government or market institutions should start by focusing on direct regulation instruments, such as rules specifying what technologies can be used.

Owing to a variety of shortcomings, the two types of instruments work best as complements rather than substitutes, as is shown by the practices of the countries that have achieved the greatest success with environmental regulation. The region has little experience in the use of these environmental management tools, so there is ample scope for testing them, especially in more institutionally developed countries. Proof of this are the innovative efforts of Costa Rica with forestry and conservation activities. The capabilities that the countries succeed in developing will become more important as international rules and mechanisms for joint implementation activities and the trading of emissions credits in the framework of the Convention on Climate Change consolidate. A recent seminar organized by ECLAC and UNDP analysed the lessons learnt from experiments with the use of economic instruments for environmental purposes in several of the region’s countries (see table VII.5).

The lessons yielded by this study suggest that there is a need to design a model that incorporates the numerous incentives that act upon regulated agents, while also capturing the complexity of the interrelationships that characterize the pollution and environmental quality situation in a context like that of Latin America and the Caribbean. The role of regulators cannot be limited to the design, follow-up and oversight of optimal regulations and instruments which are very difficult to apply in practice. Greater emphasis should be given to their role as catalysts, in two areas at least. Firstly, they should be encouraging fiscal authorities and local governments to implement direct regulations and effective economic incentives. Secondly, they should be seeking to mobilize public opinion by providing objective, transparent information on the environmental performance of regulated agents.

The complementary relationship that exists between traditional regulatory strategies and those based on economic incentives means that environmental authorities need to coordinate new mechanisms for public action, in particular to ensure that sectoral and environmental policies provide incentive structures that are consistent. Such coordination requires measures to build consensus, strengthen environmental authorities and win over both the communities affected by environmental management tools and public opinion in general. There is an ever greater need to provide the public with information on firms’ environmental performance indices, voluntary compliance programmes and other schemes that incorporate citizen participation and reputation-based incentives into environmental inspection processes.

Table VII.5
LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): USE OF ECONOMIC INSTRUMENTS FOR ENVIRONMENTAL PURPOSES

Country	*Instruments analysed with a view to implementation*
Caribbean subregion	Returnable deposit system for mass consumption bottles (Barbados)
	Environmental tariff on imported durable goods (Barbados)
	Differentiated charges for solid waste collection (Barbados)
	Tax exemption for solar-powered water heaters (Barbados)
	User charges based on volume of water extracted (Jamaica)
	Tax incentives for the construction of rainwater storage tanks and imported equipment used to save water in hotels (Barbados)
Brazil	Financial compensation for oil drilling
	Charges for water rights
	Fees levied for industrial effluents
	Sales tax on merchandise and services (ICMS) and environmental criteria for transfer to municipalities
	Recognition and awards for improvements in environmental performance by industry (non-governmental initiative)
Chile	Compensation system for emissions of particulate matter in the Metropolitan Region
	Differentiated charges for solid household waste
	Transferable individual fishing quotas
	Ecological labelling relating to ozone and organic farming
Colombia	Punitive tax on water pollution applied at the river basin level by autonomous regional corporations (CAR)
Guatemala	Tradable water-use permits
	Certification schemes (organic agriculture and eco-tourism)
	Incentives (subsidies) for reforestation
	Financing for clean production projects at preferential rates
	National fund for environmental projects
	Flat rate charges for municipal water, energy, embellishment and solid waste collection services
Mexico	Zero tariff and accelerated depreciation for pollution control and prevention equipment
	Increase in motor fuel prices
	Charges for the use or exploitation of public goods: flora, fauna, recreational hunting
	Charges for discharge of industrial effluents
	Returnable deposit systems for used batteries, tyres and lubricants
	Concessionary financing and subsidies for forest planting and management projects in devastated forest areas

Source: ECLAC-UNDP project “Aplicación de instrumentos de política económica para la gestión ambiental y el desarrollo sustentable en países seleccionados de América Latina y el Caribe”, 1999.

5. Environmental developments in the region

The large gaps in the data available make it difficult to assess environmental developments in Latin America and the Caribbean. This is due in part to the shortcomings of information systems in many countries, and to the nature of the indicators themselves. Some of these do not mean much at the individual country level, as certain environmental problems (loss of biodiversity, global warming and depletion of the ozone layer) cross national borders. Others, by contrast (air pollution in cities and the contamination of bodies of water by industrial or domestic effluents), affect very specific places. In addition, the very measurement of a number of environmental situations (land degradation and loss of biodiversity, for example) is a matter of methodological controversy. These problems are compounded by the lack of reliable data, which makes it difficult to track the comparative evolution of environmental problems.

Most of the information available indicates that the regional environment has continued to deteriorate in recent years. Everything seems to suggest that efforts to reverse adverse trends have only served to slow the advance of certain damaging processes, without actually producing a change of direction (Gligo, 1997).

(a) Natural assets

A significant part of what is produced by the region's countries, and an even larger percentage of their exports, depends on their maintaining the capacity of different ecosystems to produce goods (including agricultural, forestry and fishing products, water for domestic use and irrigation and hydroelectric power) and provide services (recreation and landscapes, for example, which are the basis of the tourism industry). Nonetheless, 46% of land eco-regions in Latin America and the Caribbean are currently either in a critical state or endangered, and 31% are vulnerable (see table VII.6).

Regarding biodiversity conservation, figure VII.1 shows that most of the region's countries have expanded the areas they designate as protected zones. In analysing this widespread and undoubtedly positive effort, however, complementary aspects relating to the management of such areas need to be considered as well. Protecting biological wealth involves developing plans to manage protected areas, providing resources so that they can be implemented (e.g., patrolling) and strengthening enforcement capabilities to ensure the relevant laws are complied with. There are major differences between countries in this respect, stemming from their relative development levels and the effectiveness of their institutional systems.[11] Again, the conservation of biodiversity is the task for which the international community has provided the greatest financial and technical support.

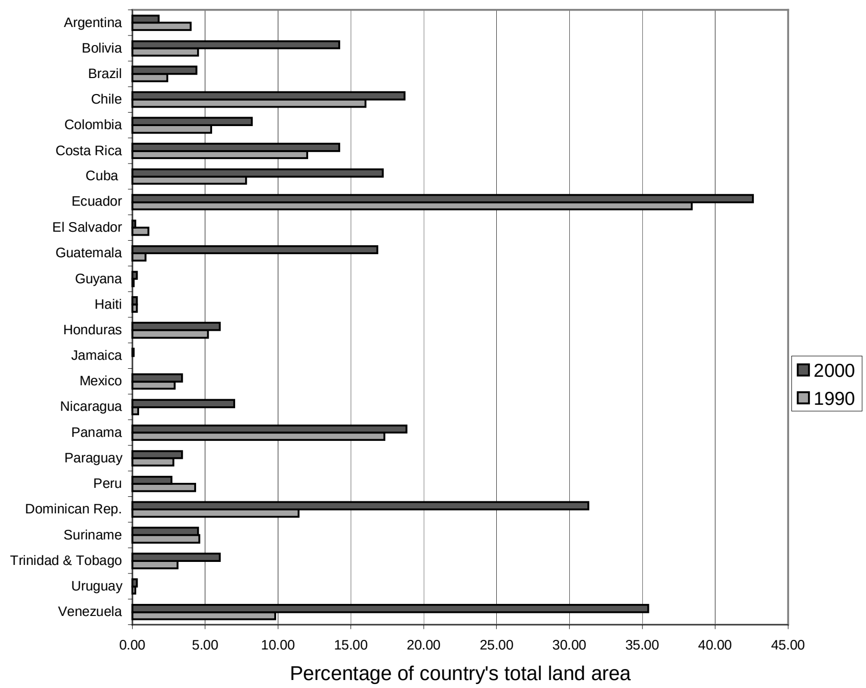
[11] In 1997, areas protected by field staff in Central American countries were as follows, in hectares: 309 in El Salvador, 2,053 in Costa Rica, 7,965 in Panama, 10,803 in Honduras, 16,431 in Guatemala, 21,094 in Nicaragua and 35,764 in Belize (CCAD, 1998).

Table VII.6
LATIN AMERICA AND THE CARIBBEAN: STATE OF CONSERVATION OF LAND ECO-REGIONS

Main type of ecosystem	Main type of habitat	Total size (km^2)	Percentage of Latin America and the Caribbean	Number of eco-regions	State of conservation of eco-regions
Tropical broad-leaf forests	Humid tropical broad-leaf forests	8 214 285	38.0	55	6 critical 15 endangered 19 vulnerable 11 relatively stable 4 relatively intact
	Dry tropical broad-leaf forests	1 043 449	4.8	31	11 critical 17 endangered 2 vulnerable 1 relatively stable
Coniferous forests and temperate broad-leaf forests	Temperate forests	332 305	1.5	3	1 endangered 2 vulnerable
	Tropical and subtropical coniferous forests	770 894	3.6	16	3 critical 3 endangered 5 vulnerable 4 relatively stable 1 relatively intact
Pastureland/savannah/ scrubland	Pastureland, savannah and scrubland	7 058 529	32.7	16	2 critical 2 endangered 6 vulnerable 4 relatively stable 2 unclassified
	Pastureland subject to flooding	285 530	1.3	13	3 critical 4 endangered 3 vulnerable 2 relatively stable 1 relatively intact
	Mountain pastureland	1 416 682	6.6	12	9 vulnerable 3 relatively stable
Xeric formations	Mediterranean scrub	168 746	0.8	2	1 critical 1 endangered
	Deserts and xeric scrub	2 276 136	10.5	27	3 critical 7 endangered 9 vulnerable 2 relatively stable 2 relatively intact 4 unclassified
	Sandbanks	34 975	0.2	3	2 critical 1 endangered
Mangrove swamps	Mangrove swamps	40 623	0.2		
			Total	178	31 critical 51 endangered 55 vulnerable 27 relatively stable 8 relatively intact 6 unclassified

Source: World Bank and World Wide Fund for Nature (WWF), 1995.

Figure VII.1
LATIN AMERICA AND THE CARIBBEAN: PERCENTAGE OF NATIONAL LAND AREA CLASSIFIED AS PROTECTED IN 1990 AND 2000



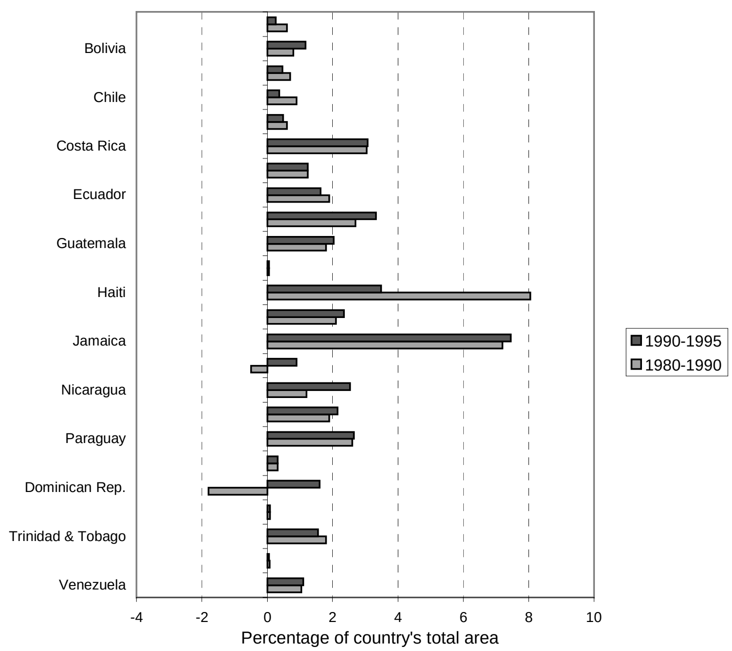
Source: World Resources 1990-1991 and 2000-2001 (World Resources Institute).

Because of the number of environmental services that forests provide, deforestation continues to be the main problem facing the region in this area. Deforestation is considered to be the main cause of biodiversity loss, owing to the large number of species that forests support. In addition, the loss of land caused by erosion is mainly due to the clearing of wooded areas, and since these also play a major role in regulating hydrological cycles and protecting water resources, tree-felling reduces the availability of water and is a key factor in aggravating the damage caused by certain natural disasters. Another important environmental service performed by forests is carbon fixing.[12]

[12] There are three main sources of greenhouse gas emissions: (i) the burning of fossil fuels; (ii) industrial processes; and (iii) changes in land use (deforestation increases emissions while reforestation reduces them). The greatest contribution to total emissions in the

Figure VII.2 shows the rates at which natural forest was lost each year in the countries of the region during the periods 1980-1990 and 1990-1995.[13] In about half of all cases rates declined or held steady, while in the other half they rose. The causes of the decline in natural forest cover include conversion into farming or grazing land, the building of infrastructure, logging and use as firewood. The leading cause in the region is the expansion of the agricultural frontier, although there are differences between countries.

Figure VII.2
LATIN AMERICA AND THE CARIBBEAN: LOSS OF NATURAL FOREST PER ANNUM IN THE PERIODS 1980-1990 AND 1990-1995



Source: World Resources Institute (WRI), "World Resources 2000-2001. People and Ecosystems". WRI.USA.

region as a whole (and worldwide) is made by the first of these sources. Nonetheless, the region is the largest contributor to world emissions from changes in land use (48.3%) (UNEP, 2000), and in several countries for which information is available (including Bolivia, Brazil and Peru), deforestation is the leading cause.

13 In most countries the rates are not much different if all forests are considered (i.e. natural forest plus plantations). Chile, Cuba and Haiti are exceptions.

Accounting for changes in deforestation rates between the periods considered is a complex task. In recent years, a number of policy changes have helped to slow down deforestation. There has been less State support (infrastructure, subsidies and the provision of land titles) for expanding the agricultural frontier, while efforts have also been made to protect certain areas, as outlined above. On the other hand, economic reforms involving market opening and deregulation have led to a reallocation of resources on the basis of comparative advantages, and this has stimulated the production and export of raw materials and natural resource-intensive industrial goods.[14] Furthermore, even without State intervention, rural communities are still being driven by poverty to settle new land.

Other indicators relating to land degradation and the exploitation of marine resources are also negative. In the region, over 300 million hectares, i.e., 16% of the total land area, are currently subject to degradation (UNEP, 2000). In most cases the problem is soil erosion caused by deforestation, overgrazing and, to a lesser extent, chemical degradation. Fish production in South America grew by 45% between 1986 and 1996 (FAO, 1999); over 80% of commercial fish stocks in the south-west Atlantic and 40% in the south-east Pacific are currently overexploited or exhausted.

Measured by the amount of renewable water resources available to them annually, most of the countries in the region have abundant water.[15] A country is considered to have a water shortage when the annual volume of renewable water per person is below 2000 m^3, since this limit represents a severe constraint on economic development and environmental protection. Countries with water availability of less than 1000 m^3 per capita are in a situation of serious shortage, with major problems in drought years. According to this indicator, Haiti and Peru currently face the greatest problems in the region. The Dominican Republic and El Salvador may also join this group by 2025 if current rates of use are maintained, depending on their population growth rates (see table VII.7).

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[14] For example, total timber output (for use by industry or as fuel) increased by 20% in Central America and the Caribbean and by 27% in South America between 1983-1985 and 1993-1995. The increase was even greater in certain countries (103% in Chile, 92% in Bolivia, 74% in Venezuela and 45% in Peru). Soya production in South America expanded by 63% between 1989 and 1998 (FAO, 1999) and has been the main cause of new land settlement in northern Argentina, eastern Paraguay and central Brazil.

[15] Even when countries have abundant water, its geographical distribution may be uneven, as may its availability over time. This can produce shortages or surpluses (flooding) on a regional or local scale, situations that are compounded by problems resulting from pollution.

Table VII.7
LATIN AMERICA AND THE CARIBBEAN: ANNUAL RENEWABLE WATER RESOURCES PER CAPITA IN COUNTRIES WHERE WATER IS SCARCEST, 1998
(Ascending order of availability)

Country	Cubic metres per person per year				
	1955	1990	1998	2025 (United Nations projection assuming low population growth)	2025 (United Nations projection assuming high population growth)
Barbados	221	195	----	181	154
Haiti	3 136	1 696	1 460	981	761
Peru	4 612	1 856	1 613	1 171	983
Dominican Republic	7 306	2 789	2 430	1 844	1 585
Cuba	5 454	3 299	3 104	2 942	2 619
Jamaica	5 383	3 430	3 269	2 710	2 078
El Salvador	8 583	3 674	3 128	2 118	1 776
Trinidad and Tobago	7 073	4 126	3 869	3 204	2 586
Mexico	11 396	4 226	3 729	2 767	2 301

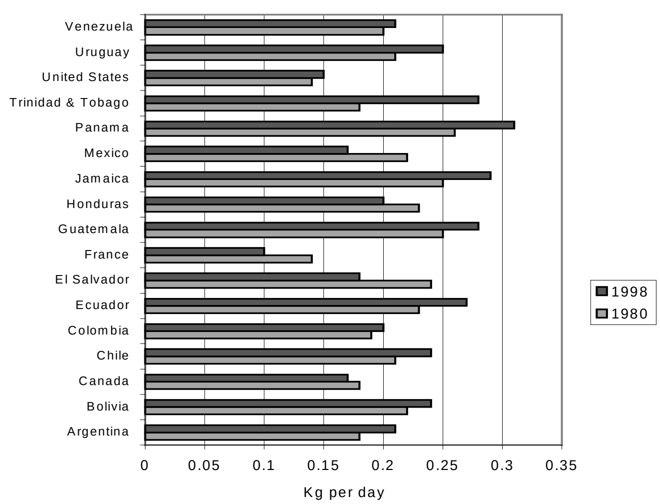
Source: Population Action International and World Resources Institute (WRI), "World Resources 1998-99: A Guide to the Global Environment" (http://publisher.elpress.com), 1999.

According to World Bank data, the region's consumption of energy and electrical power increased at annual rates of 2.4% and 5.1%, respectively, between 1980 and 1996. During this period, the share of oil derivatives as a primary energy source in electrical power generation decreased significantly, while the importance of hydroelectric power increased. With low coal use and a rising share for natural gas, Latin America's electricity subsector is the "cleanest" in the world in terms of global emissions of greenhouse gases (IDB, 1998a).

The major changes experienced by the energy subsector as a result of the economic reforms undertaken in the region gave rise to increased competition and private-sector participation, leading to stronger growth and enhanced efficiency. Nonetheless, major challenges remain as regards social equity and the environment (Sánchez and Altomonte, 1997). In urban areas, the greatest energy use-related environmental problems are air pollution and the contribution to global warming. Both are the result of emissions by the transport subsector, which consumes 31% of the region's energy and 55% of its oil, and is responsible for 36% of greenhouse gas emissions (IDB, 1998a). Energy-related environmental problems in rural areas stem from production and transport activities in the energy sector itself, and include in particular the environmental degradation caused by oil drilling in Amazonia and other fragile ecosystems and disputes over a number of hydroelectric power generation initiatives and the laying of electricity cables and gas pipelines.[16] In many rural areas, furthermore, the use of biomass as a cooking fuel not only puts pressure on forestry resources but causes pollution inside homes with harmful health effects, especially for women and children.

As regards industrial production, manufacturing activities based on natural resources and those producing highly standardized intermediate industrial goods have succeeded in improving their relative performance in recent years. According to the World Bank classification (Low and Yeats, 1992), these belong to "environmentally sensitive" subsectors. Figure VII.3 illustrates changes in industrial emissions of

Figure VII.3
LATIN AMERICA AND THE CARIBBEAN AND DEVELOPED COUNTRIES: INDUSTRIAL EMISSIONS OF ORGANIC POLLUTANTS, 1998 AND 1980



Source: World Bank, 2002. Development Indicators. On-line Data Base.

16 At the present time, many of the environmental disputes in the region relate to energy production (the Yaciretá dam between Argentina and Paraguay, and Ralco in Chile; oil drilling in U'wa territory in north-eastern Colombia and in the Department of Petén in Guatemala), processing (refinery in Bahía de Trujillo in Honduras) and transportation (electrical power lines in Gran Sabana, Venezuela, the San Miguel-Cuiaba gas pipeline between Bolivia and Brazil, and the extension of the oil pipeline in Ecuador).

organic pollutants in a number of countries between 1980 and 1996. Daily emissions per worker rose in nearly all cases, which suggests that the more polluting industrial segments increased their presence over the period.[17]

Urban population growth and economic expansion have intensified the problem of atmospheric pollution. Mexico City, São Paulo (Brazil) and Santiago (Chile), are among cities that suffer from severe air pollution, with serious effects on the health of citizens and the economy. Several studies show that the concentrations of particulate matter, sulphur dioxide, nitrogen and lead recorded in a number of cities in the region are correlated with increases in mortality and sickness rates caused by respiratory illness (WHO, 1999).

The problem of urban waste has taken on particular importance in the management of cities, owing to its effects on the quality of life and productivity in densely populated areas. With urbanization and the new production and consumption patterns associated with economic growth, waste volumes have increased dramatically. According to calculations made by the Pan-American Health Organization, in 1995 the region generated 275,000 tons of solid urban waste a day, with all the administrative, logistical, financial and institutional problems that its collection and disposal entail, not only in large cities, but in smaller towns as well (Zepeda, 1995). As rapid urban expansion and high land costs make it difficult to find nearby sites for final waste disposal, some countries have set up transfer stations. Progress has been made with landfills, but these are largely confined to a handful of more developed cities, while medium-sized and smaller cities continue to use unsatisfactory methods of rubbish disposal, such as open dumps. Industrial waste also has a major impact on the environment in many cities in the region.

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[17] Water pollution caused by organic matter is measured in terms of biochemical oxygen demand (BOD). With regard to the data shown in the figure, it should be borne in mind that water pollution depends on local conditions and that the figures are per worker, so in some cases total emissions were less in 1998 than in 1980.

Chapter VIII

Economic and social performance in the Caribbean

During the 1990s, the Caribbean countries continued to make progress with the major economic and social reforms they had introduced in the 1980s. Broadly speaking, these reforms were designed to open up their economies in order to take advantage of the opportunities offered —and respond to the challenges posed— by increasing liberalization of the world economy. In addition, an intensified effort was made in the 1990s to consolidate the Caribbean Community (CARICOM) single market and economic area. CARICOM now includes Suriname and Haiti, and its economic and trade relations extend to the Dominican Republic and other Latin American countries, most notably Venezuela and Colombia.

There were also macroeconomic reforms aimed at correcting internal and external imbalances inherited from previous decades. The period saw a resumption of economic growth in Trinidad and Tobago and in Guyana, countries whose economies had contracted in the 1980s. In other countries, such the members of the Organization of Eastern Caribbean States (OECS), economic growth continued without interruption, although at a slower pace. These economies' structure and lack of diversification, however, mean that this progress is vulnerable to any sudden change, such as a natural disaster or a drop in the inflow of foreign exchange from exports of their main commodities, as is now happening in the case of banana exports from the OECS countries.

Despite progress in certain areas, the long-desired goal of economic diversification has yet to be achieved.

During the decade, attention in the Caribbean continued to be focused primarily on social equity-related issues such as employment, access to health and education and poverty relief, particularly in countries that experienced slower growth or political instability. Efforts were also made to achieve greater gender equity in the subregion through the implementation of policies and programmes to improve the social and economic status of women. Migration and population growth continued to alter the demographic characteristics of the Caribbean. With regard to the environment, approval in 1994 of the Programme of Action for the Sustainable Development of Small Island Developing States underscored the need to protect the subregion's fragile environment within the context of sustainable development policies.

1. Trade and foreign direct investment

(a) Trade policies and preferences

The Caribbean countries have been accorded preferential treatment in numerous agreements, including the Lomé Convention, the Caribbean Basin Initiative and the Programme for trade, investment and industrial cooperation between Canada and the Commonwealth Caribbean (Caribcan). Under the provisions of the fourth Lomé Convention, the European Union gives all products from States in Africa, the Caribbean and the Pacific tax-free access to its market, and also gives preferential treatment to bananas, rum and sugar. The heads of State and government of the European Union and the 77 States of Africa, the Caribbean and the Pacific recently signed a new accord, the Association Agreement, which replaces the fourth Lomé Convention (Cotonou, Benin, June 2000). The Agreement provides for a transition period (2000-2008) during which the current preferences will be maintained, to be followed by a liberalization period lasting at least 12 years during which new trade relations will be established in accordance with World Trade Organization (WTO) rules. There is also provision for 23.4 billion euros of European development funds to finance various economic and social initiatives over the Agreement's first seven years of operation.

Under the Caribbean Basin Initiative, most commodity exports from the Caribbean countries enjoy tax-free access to the United States market. The exceptions are wearing apparel, footwear and petroleum. The Initiative also allows special United States customs treatment for products manufactured in the subregion using components from that country. In addition, the United States applies tax-free import quotas to sugar from some of the Caribbean countries, including Barbados, Guyana, Jamaica, Saint Kitts and Nevis and Trinidad and Tobago. Under Caribcan, Canada gives tax-free access to all Caribbean exports except textiles, wearing apparel, footwear, certain leather articles, lubricating oils and methanol.

The preferences for sugar and banana exports have had a positive effect on the economies of the subregion because they have made it possible to maintain employment levels while increasing revenue and profits. Although this support has allowed the two industries to survive, however, efficiency and productivity do not seem to have improved, since these commodities are produced at high cost. At the same time, they have remained dependent on the subsidies provided under the preferential trading regimes.

The concessions granted under Articles 806 and 807 of the United States Customs Code have served as a major stimulus for the creation of numerous export processing zones, especially in Jamaica, and for the development of some manufacturing industries in the subregion. Given that the success of these zones is essentially due to the concessions that have been granted, however, it is possible that this good performance may not be sustainable over the long term. In fact, there are already signs that Mexico’s favoured access to the United States market under NAFTA is cutting into the advantages hitherto enjoyed by Caribbean exports under the Caribbean Basin Initiative and the Customs Code provisions.

During the 1990s, Caribbean trade policies were heavily influenced by implementation of the programme creating the CARICOM single market and economic area, and by the steps taken to forge ties between the Caribbean Community and other country groupings in the Caribbean subregion and Latin America. The CARICOM common external tariff, buttressed by numerous non-tariff barriers, played a strong protective role until the end of the 1980s. Tariffs were highly dispersed, with 16 different rates ranging from 0% to 70%, although most of them (about 96%) were no higher than 45%. In addition to tariffs, imports entering the CARICOM member countries were subject to a variety of regulations, including liability for charges such as stamp duty, customs surcharges and excise taxes, which were almost always higher than those applied to domestic products.

In the 1990s, CARICOM trade regulations underwent numerous revisions. In 1991, the tariff structure was greatly simplified and rates were reduced to a range of 0% to 45%. In 1993, a major overhaul resulted in the adoption of four categories, with provision to reduce them progressively over a period of five years. Thus began the opening up of the Caribbean economies. Once the CARICOM common external tariff is fully implemented, rates will range from 0% to 20%, except in the case of agricultural products, which will continue to be subject to a 40% tariff. There have been a number of obstacles to implementation of these reforms, however, and as a result they are not yet fully in force in all the countries.

In 1997, CARICOM drew up a series of protocols to amend the Treaty of Chaguaramas under which the Community was originally created. Once applied, some of these protocols will help open the countries up further to trade and to investments from other members of the Community. Protocol II, the one whose implementation is furthest advanced, will enable citizens of the CARICOM member countries to establish businesses, provide services and move capital freely within the subregion. The greater integration of factor markets that will probably occur when this protocol is applied will help improve resource allocation in the Caribbean and will also strengthen the countries' capacity to absorb external shocks and respond to them more effectively. Other protocols that have major implications for trade and investment are Protocol III, Industrial Policy; Protocol IV, Trade Policy; Protocol V, Agricultural Policy; Protocol VIII, Disputes Settlement; and Protocol IX, Rules of Competition. They can all be expected to strengthen the Community's trade policy and have a positive influence on its foreign policies.

In addition to its efforts to create a single market and economy, CARICOM has been implementing policies aimed at deepening integration with the rest of the Caribbean subregion and Latin America. Suriname became a fully fledged member in 1993, and in 1997 Haiti was accepted on a provisional basis, although in practice it is treated as a normal member. The Community has also signed free trade agreements with Colombia and Venezuela, and it is currently negotiating another one with the Dominican Republic. All the CARICOM countries except the Bahamas are WTO members and are participating in the Free Trade Area of the Americas negotiations. In view of their limited financial capacity and human resources, these Caribbean countries have established a subregional mechanism to coordinate their position in international negotiations.

(b) Trade performance

A combination of relative economic stability, renewed growth in the larger economies and freer circulation of goods in the CARICOM area contributed to a rise in the subregion's exports in the 1990s. As table VIII.1 shows, exports increased by 42% during the decade, averaging US$ 5.807 billion over the three-year period 1997-1999. However, this is still slightly lower than the 1980 figure of US$ 5.927 billion.

Table VIII.1

CARICOM: VALUE AND DISTRIBUTION OF EXPORTS, BY MAIN DESTINATIONS, AND OF IMPORTS, BY MAIN SOURCES

(Millions of dollars and percentages)

	Exports						Imports					
	1980		1990[a]		1997-1999[a]		1980[b]		1990[a]		1997-1999[c]	
	Value	Percentage	Value	Percentage	Value	Percentage	Value	Percentage	Value	Percentage	Value	Percentage
Total CARICOM	5 927	100.0	4 088	100.0	5 807	100.0	5 906	100.0	5 065	100.0	8 596	100
Caribbean Community and Common Market	566	9.5	503	12.3	1 019	17.5	520	8.8	466	9.2	874	10.2
Caribbean Common Market	529	8.9	498	12.2	991	17.1	518	8.8	466	9.2	857	10.0
Bahamas	37	0.6	5	0.1	28	0.5	2	0.0	0	0.0	16	0.2
Other Caribbean countries	496	8.4	317	7.8	463	8.0	315	5.3	177	3.5	249	2.9
Canada	106	1.8	175	4.3	391	6.7	274	4.6	273	5.4	245	2.8
United States	2 887	48.7	1 662	40.7	1 903	32.8	1 641	27.8	2 087	41.2	3 938	45.8
Latin American Integration Association	113	1.9	116	2.8	247	4.2	328	5.6	569	11.2	776	9.0
Central American Common Market	89	1.5	18	0.5	121	2.1	50	0.8	35	0.7	83	1.0
European Union	977	16.5	841	20.6	1 239	21.3	934	15.8	783	15.5	1 289	15.0
United Kingdom	427	7.2	536	13.1	570	9.8	656	11.1	434	8.6	473	5.5
Others	550	9.3	305	7.5	669	11.5	278	4.7	349	6.9	815	9.5

(Continued)

Table VIII.1 (concluded)

	Exports						Imports					
	1980		1990[a]		1997-1999[a]		1980[b]		1990[a]		1997-1999[c]	
	Value	Percentage	Value	Percentage	Value	Percentage	Value	Percentage	Value	Percentage	Value	Percentage
European Free Trade Association	141	2.4	154	3.8	88	1.5	72	1.2	87	1.7	61	0.7
Selected Asian countries[d]	23	0.4	48	1.2	48	0.8	391	6.6	390	7.7	668	7.8
Japan	21	0.4	36	0.9	36	0.6	291	4.9	232	4.6	218	2.5
Others	2	0.0	12	0.3	12	0.2	100	1.7	158	3.1	162	1.9
Rest of the world	529	8.9	253	6.2	288	5.0	1 381	23.4	198	3.9	415	4.8

Source: ECLAC, on the basis of information provided by the CARICOM Secretariat and two country studies published by The Economist Intelligence Unit: “Trinidad and Tobago, Guyana and Suriname country report”, June 2000, and “Jamaica, Belize, Organisation of Eastern Caribbean States (OECS)”, April 2000.

[a] Except Antigua and Barbuda, for which data are not available.
[b] Except Montserrat, for which data are not available.
[c] Except Antigua and Barbuda, Grenada, Montserrat and Saint Vincent and the Grenadines, for which data are not available.
[d] Includes China, India, Japan, Taiwan province of China, Hong Kong Special Administrative Region of China, the Republic of Korea, Singapore and Thailand.

There was little change in export destinations during the 1990s compared with the previous decade, except that the percentage of external sales among member countries of the Community themselves rose from 12.3% to 17.5% of total exports between 1990 and 1997-1999, reflecting higher growth and trade liberalization within the Community. In 1997-1999, the proportion of exports traded among the CARICOM countries was about the same as the percentage of external sales going to the countries of the European Union and slightly more than half the percentage going to the United States, which continues to be the main importer of Caribbean goods.

In the 1990s, exports continued to be dominated by oil, bauxite and agricultural products, including sugar, bananas, cacao and coffee. Earnings from sugar and bauxite fell during the decade owing to declining prices for these products and, in the case of sugar, damage caused by a series of natural disasters. Earnings from sugar fell from US$ 4.443 billion in 1986 to one fourth of this amount in the 1990s. Something similar occurred with the income received by Jamaica and Guyana from the sale of bauxite, which fell from an average of US$ 227.2 million in the 1980s to US$ 146.2 million in the 1990s. By contrast, banana exports increased from an annual average of US$ 84.7 million in the 1980s to an average of US$ 156.9 million over the period 1990-1999.[1]

Manufactures accounted for a relatively low proportion of the Caribbean countries' exports at the end of the 1980s, but their share rose steadily throughout the 1990s. The main products were household and electronic articles assembled in the subregion, wearing apparel, processed foods and petroleum derivatives. Exports from the manufacturing sector went primarily to the protected regional market and the United States, where they are given preferential treatment. Textiles and wearing apparel, however, have been losing ground in some of the countries, including Jamaica, since the adoption of NAFTA.

The export of tourist services became an important source of foreign exchange for the Caribbean, accounting for a high proportion of foreign currency revenue in Antigua and Barbuda, Bahamas, Barbados, Jamaica, Saint Lucia and Saint Vincent and the Grenadines. In all these countries except Jamaica, revenue from this source far exceeded earnings from goods exports. Moreover, construction, agriculture, manufacturing and craft production have all benefited from the growth of tourism in the islands. While the construction of hotels and apartments and the consumption of local food and manufactured products (furniture, soap,

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[1] ECLAC, on the basis of data from the countries.

etc.) have had a positive effect on overall economic activity, the ties between tourism and the other sectors of the economy could be stronger than they are. In Barbados and Jamaica they are more closely linked than in the smaller OECS countries.[2]

At the end of the 1990s, Caribbean exports were still characterized by excessive concentration and by vulnerability to price fluctuations and changing trade policies in the main destination countries. The exports of Trinidad and Tobago continued to be dominated by oil and petrochemical products; those of the OECS countries and Belize by sugar and bananas; Guyana's principal exports were still rice, sugar and bauxite; Barbados remained dependent on tourist services; and most of Jamaica's export revenue continued to come from bauxite, tourism and assembly activities.

In absolute terms, CARICOM imports rose almost twice as fast as exports in the 1990s, when they increased by approximately 70% to average almost US$ 8.6 billion a year over the period 1997-1999. Imports of products from other CARICOM countries rose by just over 1% to account for 10.2% of the total in 1997-1999. The origin of imports follows a pattern similar to that for exports: 45.8% of the products imported by CARICOM in 1997-1999 came from the United States and 15% from the European Union. Another trend of interest was the growing importance of imports from Asia, which rose from 6.6% of the total in 1980 to 7.7% in the 1990s.

In many Caribbean countries, foreign direct investment (FDI) has had a growing impact on economic development and has swelled low levels of domestic savings. As table VIII.2 shows, the subregion's FDI rose from US$ 667 million in 1990 to US$ 2.497 billion in 1998, but slipped to US$ 1,992 in 1999. During 1997-1998 most of this investment went to three countries (37.8% to Trinidad and Tobago, 23.4% to Bahamas and 12.1% to Jamaica). The oil industry was the main recipient, with transnational enterprises investing heavily in exploration, production and refining activities in Trinidad and Tobago.[3] On a smaller scale, FDI also had an impact in the OECS countries, which received about 8% of the Caribbean total.

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[2] Charles and Marshall (1999) give a detailed analysis of the links between tourism and agriculture in the Caribbean.

[3] In 1999, Amoco, in partnership with British Gas, Repsol, National Gas Company (NGC) and Cabot, built one of the continent's largest liquid natural gas plants at a cost of US$ 1 billion (ECLAC, 2000b).

Table VIII.2
CARICOM: NET INFLOWS OF FOREIGN DIRECT INVESTMENT, 1980-1999
(Millions of dollars)

	1980	1990	1995	1996	1997	1998	1999
CARICOM	317	667	870	1 034	2 074	2 497	1 992
More developed countries	216	303	530	643	1 311	1 156	1 232
Barbados	3	11	12	22	18	32	17
Guyana	1	8	74	81	90	45	48
Jamaica	28	175	147	184	203	350	524
Trinidad and Tobago	185	109	296	356	1 000	730	643
Less developed countries	53	214	211	167	221	226	328
Belize	0	17	21	17	12	12	47
OECS	53	197	190	150	209	214	281
Antigua and Barbuda	20	61	31	19	28	20	27
Dominica	0	13	54	18	21	20	18
Grenada	0	13	20	19	35	41	46
Montserrat	0	10	3	0	3	3	8
Saint Kitts and Nevis	1	49	20	35	20	32	42
Saint Lucia	31	45	30	17	47	51	94
Saint Vincent and the Grenadines	1	8	31	43	55	47	46
Other Caribbean countries	49	149	129	224	542	1 116	432
Anguilla	0	11	18	33	21	21	40
Aruba	0	131	-6	84	196	82	392
Bahamas	4	…	107	88	210	852	…
Netherlands Antilles	35	8	10	11	103	151	…
Suriname	10	…	…	7	12	10	…

Source: ECLAC, on the basis of information provided by the International Monetary Fund and the Eastern Caribbean Central Bank.

2. Macroeconomic performance and reforms

(a) Economic reforms

In response to internal and external imbalances and to deteriorating economic and social conditions in the Caribbean, many of the subregion's countries embarked on economic reforms in the 1990s. Guyana, Jamaica and Trinidad and Tobago[4] found it necessary to implement structural adjustment programmes to deal with the effects of the public-sector expansion policies they had applied in the 1970s and 1980s, which had led to rising budget and balance-of-payments deficits and burgeoning foreign debt. In general, the reforms sought to give greater recognition to the function of prices. An integral part of these programmes were foreign exchange policies under which currency controls were to be progressively lifted. After a series of devaluations, Guyana, Jamaica and Trinidad and Tobago gave up the effort to defend their currencies and adopted a dirty float. National currencies were subjected to numerous pressures throughout the decade, and monetary authorities were obliged to curb borrowing and carry out open market operations to forestall further devaluations.

The three countries mentioned, together with Barbados, whose economy contracted sharply at the beginning of the decade, also embarked on fiscal reforms aimed at reducing expenditure and increasing revenue. To accomplish the first objective, they initially reduced capital investment, but later they shifted their focus to freezing the salaries of public servants, cutting back staff numbers and reducing transfers to public enterprises, including service suppliers and providers. State enterprises were also privatized in Guyana, Jamaica and Trinidad and Tobago.

These policies had the effect of reducing expenditure on wages and salaries as a proportion of total public spending. In Barbados, Jamaica and Trinidad and Tobago, respectively, this expenditure fell from 42%, 40% and 41% of the total in 1983 to 41%, 36% and 39% in 1997. Meanwhile, social expenditure on health and education generally remained high in these countries. In Barbados, an average of half of all current government expenditure went to the social sector in the 1990s; expressed as a percentage of GDP, this represented a rise from 13% in the 1980s to 15% in

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[4] Jamaica signed up to its first structural adjustment programme with the International Monetary Fund in 1977, while Trinidad and Tobago's first programme dates back to 1988.

the 1990s. In Trinidad and Tobago, on the other hand, social spending has tended to contract in recent years.[5]

As regards public revenue, measures were taken to overhaul the taxation system (by broadening the tax base and applying new consumption taxes) and to make tax administration more efficient. The main feature of the tax reform was the replacement of sales and other specific taxes with value added tax (VAT). VAT at 15% was introduced in Trinidad and Tobago in 1990 and in Barbados in 1997. In 1991 Jamaica adopted a 10% general consumption tax, which replaced the eight indirect taxes that had been in effect until then.

The economic reforms also included stricter monetary policies, specifically: reductions in public credit, the abolition of interest rate controls and the gradual elimination of interest rate subsidies. In the area of trade, as already mentioned, tariffs were modified and quantitative restrictions were lifted. Measures were also taken to promote exports, including the abolition of export licences, the simplification of procedures and the adoption of a system of rebates for exporters. The reforms also led to the introduction of policies to facilitate foreign direct investment in the countries, mainly through the use of tax incentives.

The OECS countries largely managed to avoid the macroeconomic imbalances that had affected the other countries of the region since the 1980s, thanks to the prudent policies that they applied throughout the decade and to favourable conditions for their export commodities, especially bananas and sugar, in the protected European market. There was growth in these countries in the 1990s, but it was lower than in the 1980s (when it was in excess of 5% a year). The OECS countries also succeeded in maintaining fixed exchange rates, thanks mainly to their relatively sound fiscal and balance-of-payments situation and to the decision of their common central bank, the Eastern Caribbean Central Bank, to set up a conversion fund mechanism for monetary management. The Bank maintains a strict ratio between the money supply and currency reserves, and it rigorously enforces the financing limits for the budget deficit.

The taxation system in the OECS countries continues to rely heavily on indirect taxes, especially those applied to international trade, which accounted for more than 50% of total revenue in most of the countries in the 1990s. Some member countries –Antigua and Barbuda and Saint Kitts and Nevis, among others– have no personal income tax. In view of the

[5] During 1990-1995, the average share of GDP represented by health spending was 4.1% in Barbados, 2.6% in Trinidad and Tobago and 3% in Jamaica. In Barbados, average spending on education increased to 7.2% of GDP, while in Jamaica and Trinidad and Tobago the figures were 8.2% and 4.5% of GDP, respectively. See ECLAC / CDCC (1999).

trend toward increased liberalization of trade, the countries initiated a tax reform programme in the 1990s with the aim of reducing their reliance on revenue from taxes on international trade.

(b) Macroeconomic performance

The economic performance of the Caribbean countries over the decade was quite heterogeneous (see table VIII.3). Growth recovered in Guyana and Trinidad and Tobago and, to a lesser extent, in Suriname, whose economy had contracted in the 1980s. In Jamaica, growth continued to be very slow, and in the latter years it turned negative. The economy of Barbados slowed considerably, while Belize continued to expand. The OECS countries grew more slowly than in the 1980s, particularly Montserrat, whose economy contracted during the period. Growth was also negative in the Netherlands Antilles. Other than in Guyana, Jamaica and Suriname, budget deficits, inflation and foreign debt charges were generally moderate in the countries of the subregion.

Guyana contracted severely in the 1980s as a result of lower bauxite prices, rising oil prices and the numerous distortions that affect the country’s economy. However, growth resumed in the 1990s; in fact, the country’s average growth rate of 4.8% for the period 1990-1999 was the highest in the entire subregion. This impressive turnaround can be attributed to the economic recovery programme implemented in the late 1980s and to the low level of initial activity. Improved macroeconomic management and measures to enhance the workings of the market contributed to higher output, especially in the agricultural sector (sugar and rice). The budget deficit and inflation fell from 50% and 64%, respectively, in 1987 to 12.3% and 8.7% in 1999. Nevertheless, Guyana still has a heavy debt burden, a legacy of the external borrowing it undertook to finance expansionist policies in the 1970s. In 1999 the country’s foreign debt was almost double its GDP, and it still struggles to service it, even though part was written off under the Heavily Indebted Poor Countries Debt Initiative.

After contracting for several years, mainly because of the sharp fall in oil prices and the macroeconomic imbalances that resulted from this, the economy of Trinidad and Tobago recovered in the 1990s, averaging growth of 2.4% between 1990 and 1999. In 1988, the country began to apply a strict and far-reaching adjustment programme that created the conditions for sharp reductions in the budget and balance-of-payments deficits and for the emergence of economic conditions that were more favourable to investment and production. The resumption of growth in the oil and gas sector, the recovery of manufacturing and the resultant boost to other sectors of the economy (construction, banking, insurance and real estate) were the main factors behind the renewed vigour of the national economy.

Table VIII.3
CARICOM: MACROECONOMIC SITUATION OF THE COUNTRIES
(Percentages)

	GDP growth		Inflation rate	Foreign debt (percentage of GDP)	Unemployment	Budget balance (percentage of GDP)
	1980-1989	1990-1999	1999	1999	rate 1999	1990s[a]
More developed countries	-0.2	2.2	5.3	…	…	-3.9
Barbados	3.0	0.3	3.0	24.3	12.3[a]	-2.2
Guyana	-1.4	4.8	8.7	199.1	11.0[c]	-12.3
Jamaica	0.8	1.4	6.0	59.3	15.5[a]	-0.8
Trinidad and Tobago	-3.0	2.4	3.4	24.7[a]	13.1	-0.4
Less developed countries	5.4	2.3	2.8	…	…	-2.8
Belize	4.4	4.6	-1.2	58.5	14.3[a]	-3.8
OECS	5.5	2.0	2.4	…	…	-2.7
Antigua and Barbuda	7.4	3.2	1.6	68.9	7.0[c]	-2.4
Dominica	5.5	2.6	1.5	45.8	10.0[c]	-4.1
Grenada	4.7	3.8	-0.8	32.7[a]	16.0[c]	-3.6
Montserrat	5.8	-5.6	5.0	89.9[a]	…	-1.8
Saint Kitts and Nevis	5.2	4.0	0.4	47.0[a]	12.0[c]	-3.5
Saint Lucia	4.0	2.5	6.2	26.1[a]	16.0[c]	-1.0
Saint Vincent and the Grenadines	5.9	3.6	3.0	36.8[a]	20.0[c]	-2.4
Other Caribbean countries	…	…	…	…	…	…
Anguilla	…	4.7	1.5	11.3[a]	…	-0.5
Aruba	…	4.8	2.8	…	…	-0.8
Bahamas	4.5	3.5[d]	6.0	8.1	15.0[c]	-2.1
Netherlands Antilles	…	-0.5	0.8	…	14.2[b]	10.4
Suriname	-3.1	0.7	98.8	…	10.0[b]	…
CARICOM	3.1	2.4	8.6	…	…	-2.0

Source: ECLAC, on the basis of national data and the following studies: The Economist Intelligence Unit, “Trinidad and Tobago, Guyana and Suriname country report”, June 2000; The Economist Intelligence Unit, “Jamaica, Belize, Organisation of Eastern Caribbean States (OECS)”, April 2000; and The Economist Intelligence Unit, “Bahamas, Barbados, Bermuda, British Virgin Islands, Netherlands Antilles, Aruba, Turks and Caicos Islands, Cayman Islands country reports”, June 2000.
[a] 1998 data. [b] 1997 data. [c] 1996 data. [d] Average for 1995-1999.

Growth rates in Jamaica and Suriname averaged 1.4% and 0.7% a year, respectively, between 1990 and 1999. After recovering vigorously in the late 1980s and early 1990s, the Jamaican economy began to slow, and in 1996 it went into recession. This was the result of a combination of macroeconomic imbalances stemming from an increase in public spending financed by the Central Bank, the cost of servicing a large debt and a drought that affected the agricultural sector. The budget deficit averaged 0.8% of GDP in the 1990s, with a rise in the middle of the decade that was partly due to the cost of restructuring the financial sector to shore up failing banks.[6] Inflation slowed down considerably in the early 1990s, and by 1999 was holding steady at 6%. The proportion of GDP represented by the country's external debt fell from 137.7% in 1987 to 59.3% in 1999, although it is still large and debt servicing remains a heavy burden. After shrinking in the early part of the decade, the economy of Suriname recovered in 1995 and began to grow again thanks to the implementation of a programme of economic reforms. The country's political instability and heavy debt burden complicate macroeconomic management and may endanger its fragile recovery.

The Barbados economy experienced a slowdown during the decade, growing by an average of just 0.3% in 1990-1999 as compared with 3% in the 1980s. The economy contracted sharply in 1990, 1991 and 1992, when GDP fell by 3.1%, 4.1% and 6.2%, respectively. The main factors behind this contraction were the weakness of the world economy and a decline in the competitiveness of the country's main exports (tourism and agricultural and manufactured products) because of rising production costs. Implementation of an economic stabilization programme in 1991, coupled with more favourable conditions abroad, set the stage for a resumption of growth in 1993. Barbados maintained a fixed exchange rate, chiefly through the use of income and price policies, with the objective of warding off constant downward pressure on its currency. Belize, meanwhile, achieved average annual growth of 4.6% during 1990-1999 thanks to the expansion of export agriculture, fishery activities and tourism (especially eco-tourism). Together, these sectors have accounted for 34% of GDP and 66% of total exports since 1995.

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[6] In 1995, seven of the country's commercial banks experienced problems: National Commercial Bank, Mutual Security Bank, Citizens Bank, Workers Bank, Century National Bank, Island Victoria Bank and Trafalgar Commercial Bank. The first two banks merged, but the new institution continued to have problems, as a result of which the Government had to come to the rescue with a large funding package. Century National Bank was dissolved, and Citizens Bank, Workers Bank, Island Victoria Bank and Trafalgar Commercial Bank merged into a single entity called Union Bank of Jamaica.

Growth in the OECS countries was moderate in the 1990s, except in Montserrat, where it was negative. Growth averaged 2% in the period 1990-1999, which was slightly less than in the 1980s. This slowdown in growth was due mainly to the damage inflicted on agriculture, physical infrastructure and tourism by natural disasters. For the most part, these countries managed to prevent their budget deficits from widening even during the slowdown of the 1990s. Prudent fiscal policy also helped to offset inflationary pressures. In Montserrat, economic activity fell off greatly after the 1995 volcanic eruption, which inflicted enormous damage on the country's economic and social infrastructure and triggered a massive population exodus.[7]

In the Netherlands Antilles, growth slowed sharply in the second half of the decade. This was mainly due to the contractionary fiscal and monetary policies adopted to curtail growing budget and balance-of-payments deficits. Lower aggregate demand caused unemployment to rise from 12.8% in 1994 to 14.2% in 1997.

Unemployment remained high in the Caribbean throughout the decade. In 1999, the rate was 10% or higher in all the countries of the subregion except Antigua and Barbuda. These high rates may be due to the growth performance of the 1990s, which was erratic and moderate at best, and to labour market rigidities. The incidence of unemployment varies from one group to another and tends to be higher among women and the young. Despite their high unemployment rates, the Caribbean countries continued to suffer from a shortage of highly skilled workers for technical and administrative jobs (IDB, 1998b).

(c) Saving, investment and the current account

As table VIII.4 shows, the way the components of the saving and investment account developed, and the overall outcome, were far from uniform in the CARICOM countries. The average investment ratio rose from 23% to 30.8% in Jamaica, while in Guyana it increased by two thirds, from 27.1% in the 1980s to 43.5% in the 1990s. In Barbados and Trinidad and Tobago, by contrast, it fell by approximately four and five percentage points, respectively, in the 1990s. In the OECS countries the average remained high (33.4% in 1981-1989 and 37.1% in 1990-1999).

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[7] Many of those who stayed in the country had to move into refugee camps, and the tourism sector, one of the country's main engines of economic growth, was virtually wiped out. In 1999, the islanders began to gradually regain confidence, and the Government, in cooperation with the United Kingdom, made progress with reconstruction. It is estimated that by August 1998, 14% of the emigrants had returned to the country and the population had reached 4,008 (Greene, 1999).

Table VIII.4
CARICOM: INVESTMENT, SAVING AND CURRENT ACCOUNT BALANCES
(Annual averages)

	Domestic investment as a percentage of GDP (A)	Domestic saving as a percentage of GDP (B)	Current account balance as a percentage of GDP (B) - (A)
	1980-1989		
CARICOM	28.7	14.6	-14.1
More developed countries	22.8	17.9	-4.9
Barbados	18.9	19.4	0.5
Guyana	27.1	14.7	-12.4
Jamaica	22.9	16.3	-6.6
Trinidad and Tobago	22.3	21.6	-0.7
Less developed countries	32.2	8.1	-24.1
Belize	26.5	16.3	-10.2
OECS	33.4	6.5	-26.9
Antigua and Barbuda	…	…	…
Dominica	30.5	6.6	-23.9
Grenada	37.7	6.2	-31.5
Montserrat	39.7	-5.5	-45.2
Saint Kitts and Nevis	37.5	10.1	-27.4
Saint Lucia	24.3	10.8	-13.5
Saint Vincent and the Grenadines	29.6	11.8	-17.8
	1990-1999		
CARICOM	32.2	20.5	-11.7
More developed countries	26.8	23.5	-3.3
Barbados	15.2	16.6	1.4
Guyana	43.5	31.2	-12.3
Jamaica	30.8	22.1	-8.7
Trinidad and Tobago	17.7	24.6	6.9
Less developed countries	35.2	19.2	-16.0
Belize	25.8	20.4	-5.4
OECS	37.1	18.4	-18.7
Antigua and Barbuda	36.3	30.8	-5.5
Dominica	35.7	5.5	-30.2
Grenada	36.7	15.8	-20.9
Montserrat	44.9	18.4	-26.5
Saint Kitts and Nevis	44.3	25.1	-19.2
Saint Lucia	24.8	16.9	-7.9
Saint Vincent and the Grenadines	31.9	19.4	-12.5

Source: ECLAC, Subregional Headquarters for the Caribbean, Selected statistical indicators of Caribbean countries, vol. 2 (LC/CAR/G.544), Port of Spain, December 1998 and International Monetary Fund, International Financial Statistics, Washington, D.C., 2000.

Note: In the cases of Barbados and Guyana the percentages are for the period 1990-1998, while in that of Montserrat they are for 1990-1996.

In all the Caribbean countries except Barbados and Trinidad and Tobago, the investment ratio continued to exceed the domestic saving ratio by a wide margin.[8] This resulted in chronic current account deficits, meaning that a high percentage of domestic investment had to be financed with external resources. Remittances from Canada, the United States, the European Union and other countries, which tend to account for a high proportion of external saving, had a considerable impact on the balance of payments and on development in general in the Caribbean countries. In the subregion, Jamaica and the OECS members, except for Antigua and Barbuda, are the main recipients of remittances. Jamaica, for example, received US$ 306 million in remittances in 1996. In the OECS countries, remittances amounted to between 6% and 9% of GDP, and in the mid-1990s they were equivalent to 100% of merchandise exports in Montserrat and Anguilla, 20% in Jamaica and 9% in Guyana (ECLAC / CDCC, 1999).

The more developed countries saw an improvement in their current account deficits, which declined from an average of 4.9% of GDP in the 1980s to 3.3% in the 1990s. Trinidad and Tobago had an estimated current account surplus of 6.9% of GDP in the 1990s, but this came at the expense of investment. The current account deficit was generally higher in the OECS countries, averaging 26.9% of GDP in the 1980s and 18.7% in the 1990s.

If economic growth rates are compared with investment ratios in the 1980s and 1990s, it transpires that there are major differences between the more developed countries, on the one hand, and the OECS members, on the other. The greater investment effort made in the former (an increase of almost four percentage points of output) led to modest growth (up from an average of -0.2% in the 1980s to 2.2% in the 1990s), whereas in the OECS countries the opposite occurred: despite higher investment rates (an increase of almost four percentage points of output), average economic growth slowed from 5.5% to 2%. The OECS countries have actually achieved levels of gross fixed capital formation comparable to those of South-East Asia, and investment rates for the Caribbean countries as a whole are higher than those for Latin America. However, this did not lead to high growth rates in the 1990s, probably because investment in the Caribbean was not as efficient.[9]

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8 Owing to the lack of chronological series, GDP and domestic saving have been used instead of gross national product (GNP) and national saving. Gross national saving is gross domestic saving plus net factor income from abroad. In the case of some Caribbean countries that receive remittances from citizens living abroad, gross national saving may be higher than gross domestic saving.

9 The marginal capital-output ratio, calculated at the end of the 1980s as gross investment divided by the exponential growth rate of real GDP, was very high, ranging between 7.4 and 9.4. See CARICOM (1988).

3. Production profile

As table VIII.5 shows, the production profile of the Caribbean countries did not undergo any major changes during the decade. In general, the share of agriculture declined and the shares of manufacturing and services increased, although the trend varied considerably from country to country. In some cases, the contribution of agriculture to GDP actually rose. In Guyana, for example, agricultural output rose significantly as a result of economic reforms, particularly the lifting of price controls and currency restrictions and the liberalization of trade and the exchange rate, so that its contribution to total output rose from 29.9% in 1987 to 35.1% in 1999. Agriculture also continued to account for a high proportion of GDP in Belize and Dominica, while in Trinidad and Tobago and some of the OECS countries its share fell to less than 5%.

The steady decline in the production of the main agricultural crops, a trend that began years ago, continued to gain momentum in the 1990s. Sugar production in Barbados, Jamaica, Trinidad and Tobago and the OECS producer countries fell from 1,100,000 tons in 1970 to 427,100 tons in 1995 and 392,500 tons in 1999. Cacao and coffee experienced similar declines in Jamaica, Trinidad and Tobago and the producer countries of the OECS. Cacao production fell from 11,700 tons in 1970 to 6,250 tons in 1995 and 2,080 tons in 1999, while coffee production dropped from 4,100 tons in 1970 to 1,350 tons in 1995 and 890 tons in 1999.[10] Although banana production fluctuated somewhat, it has held up over the last two decades. The threatened abolition of preferential treatment for bananas in the European market may have a negative effect on production in the very near future. Other factors that have contributed to the decline in agricultural production are falling prices, mishandling of products after they are harvested and soil degradation resulting from poor management of land and water resources. In general, the introduction of technology in the agricultural sector has been confined entirely to production, to the exclusion of processing.

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[10] ECLAC, on the basis of information from the statistical database of the United Nations Food and Agriculture Organization (2000).

Table VIII.5
CARICOM: STRUCTURE OF NATIONAL ECONOMIES
(Percentages of GDP)

	Agriculture				Industry				Manufacturing				Services			
	1977	1987	1997	1999	1977	1987	1997	1999	1977	1987	1997	1999	1977	1987	1997	1999
Barbados	10.3	6.9	4.0	6.1	20.4	18.7	12.7	21.5	11.6	8.9	5.2	9.3	69.3	74.4	83.3	72.4
Guyana	20.7	29.9	35.4	35.1	35.7	30.1	33.7	28.5	12.1	13.9	11.4	10.1	43.6	39.9	30.8	36.4
Jamaica	8.4	7.7	8.0	6.6	37.0	39.9	35.1	32.1	18.4	20.9	16.3	13.9	54.6	52.4	56.9	61.3
Trinidad and Tobago	3.5	2.6	2.2	1.9	59.1	41.5	44.6	39.7	13.8	7.8	7.8	8.0	37.3	55.9	53.2	58.3
Belize	…	22.7	19.0	18.6	…	27.6	22.1	25.0	…	18.6	13.3	14.8	…	49.6	58.9	56.4
Antigua and Barbuda	4.1	4.5	4.1	3.9	20.1	20.3	18.2	19.2	4.3	3.6	2.2	2.2	75.8	75.2	77.7	76.8
Dominica	37.6	29.8	20.9	18.5	14.6	14.8	21.5	22.5	5.0	6.5	7.5	8.5	47.8	55.4	57.7	59.0
Grenada	27.1	18.7	8.1	8.1	14.2	18.9	20.7	22.2	3.1	5.9	6.7	7.3	58.7	62.4	71.2	69.7
Montserrat	…	…	…	…	…	…	…	…	…			…	…	…	…	…
Saint Kitts and Nevis	18.9	10.6	5.1	3.7	28.9	24.8	24.6	25.7	18.1	14.5	10.1	10.3	52.2	64.6	70.3	70.7
Saint Lucia	…	13.2	8.6	8.4	…	17.6	19.6	20.6	…	8.5	6.6	6.0	…	69.2	71.8	71.1
Saint Vincent and the Grenadines	17.5	17.0	10.1	10.4	22.4	24.7	26.6	25.8	7.1	10.3	7.9	6.5	60.1	58.3	63.3	63.8
Bahamas	…	2.1	…	…	…	14.5	…	…	…	-	-	…	…	83.4	…	…
Suriname	8.4	11.2	…	…	42.4	25.1	…	…	18.4	11.5	-	…	49.2	63.7	…	…

Source: World Bank, *World Bank Development Indicators, 2001*, Washington, D.C., 2001.

After the recession of the late 1980s, manufacturing recovered slightly in the 1990s. However, this sector’s contribution to output continued to be less than 10% in Barbados, Trinidad and Tobago and almost all the OECS countries. The Caribbean manufacturing sector, whose products go mainly to the protected subregional market and, in the case of free trade zones, to the United States, has failed to achieve the level of efficiency needed to compete properly in international markets. It continues to be dominated by assembly plants that make wearing apparel and electronic items for export to the United States or appliances and the like for local markets, and agricultural processing plants whose output goes mainly to the CARICOM market.

The low productivity of this sector in the Caribbean has prompted the countries of the subregion to implement numerous programmes aimed at improving efficiency. Several of the countries have established special support systems for small and medium-sized industrial enterprises, most of which offer training and try to promote the entrepreneurial spirit. These initiatives include the youth training and employment cooperation programmes implemented in Trinidad and Tobago and the small business development institutions set up in certain OECS countries. The way these support programmes are actually applied tends to be unsatisfactory in certain respects, especially as regards financing and the provision of technical assistance. Besides this, the lack of basic administrative and technical skills continues to be one of the main obstacles to the development of enterprises of this type in the Caribbean.

The service sector maintained its traditionally high share of output during the decade. Tourism continued to make a very significant contribution to economic growth in Barbados, Jamaica and several of the OECS countries. These examples encouraged other countries to develop their own tourist potential, Trinidad and Tobago being a case in point. One of the most important trends recently has been the emergence of new types of tourism, such as eco-tourism, that do not endanger the fragile ecosystem of the islands.

Several of the Caribbean countries have also promoted other service subsectors, such as computer and offshore financial services, with varying results. Barbados and Jamaica have developed fairly dynamic computer and communications sectors, but the expansion of this sector in Jamaica appears to have halted in the last decade. Some of the factors that have contributed to the development of these activities are relatively efficient, low-cost telecommunications services, the availability of cheap labour and legislation that is favourable to foreign investment. The OECS countries, especially Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines, have small information technology sectors that have been highly constrained by the shortage of qualified personnel and the high cost of telecommunications. Most information technology businesses operating in the Caribbean tend to specialize in simple data storage services. In Barbados and Jamaica, however, some have begun to offer services with greater value added, such as programming, call centres and Web site design and management services. As regards offshore financial services, small financial centres have been created in Antigua and Barbuda, Barbados and Saint Kitts and Nevis, and are now expanding. They join the ranks of older centres in the subregion such as those in the British Virgin Islands, the Cayman Islands and the Netherlands Antilles. The future growth of this industry will depend on the countries' ability to apply strict standards of regulation and prudential oversight, in keeping with worldwide efforts to strengthen regulatory systems.

In the field of science and technology, numerous policies have been formulated to strengthen research and development services and to boost technological development, but little has been achieved so far. A number of the Caribbean countries have created norms and standards bureaux in recent years, but most of them still do not have the staff and resources they need, and in some countries they do not even have the legislative support they require to function properly. There has also been a lack of progress with the creation of national bodies to oversee the direction and funding of science and technology activities, like those that do exist in many Latin American countries.

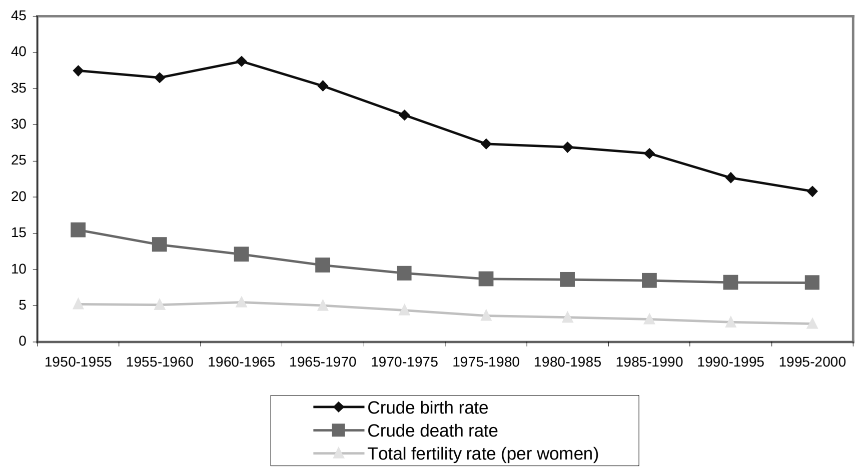
4. Changes in the social structure

The social structure of the Caribbean countries has undergone a profound transformation, brought on largely by population growth and ageing patterns, migration, urbanization and the increasingly damaging effects of the AIDS epidemic. The population has grown only slowly in the last 20 years as a result of steadily declining fertility and high levels of emigration. The general decline of fertility in the Caribbean —due mainly to higher levels of education for women and consistent implementation of family planning programmes— is less pronounced among adolescents than in other age groups. In 1994, 15% of births were to teenage mothers, and in some countries (Guyana and Jamaica, for example) the proportion exceeded 20%.[11]

[11] ECLAC, on the basis of national figures.

The combination of declining birth and death rates has led to slow but steady population ageing. The crude birth rate fell from 2.7% in 1975-1980 to 2.1% in 1995-2000, while the crude death rate fell from 0.9% in the earlier period to 0.8% in 1995-2000 (see figure VIII.1).

Figure VIII.1
CARICOM: CRUDE BIRTH AND DEATH RATES AND TOTAL FERTILITY RATE, 1950-2000



Source: United Nations, *World Population Prospects: The 2000 Revision. Comprehensive Tables*, vol. 1 (POP/DB/WPP/Rev.2000/1/F1,F3,F7), New York, Population Division, Department of Economic and Social Affairs, 2001.

As can be seen in table VIII.6, the proportion of people aged over 60 rose from 7.9% of the total subregional population in 1970 to 9.8% in 2000, chiefly owing to improved health conditions, emigration by young people and the return of increasing numbers of retirees. On average, women live four to six years longer than the men.

Table VIII.6
SELECTED CARIBBEAN COUNTRIES: POPULATION AGED 60 AND OVER, 1950-2000
(Percentages of total population)

Indicator	Estimates										
	1950	1955	1960	1965	1970	1975	1980	1985	1990	1995	2000
Subregion	6.9	7.0	7.2	7.5	7.9	8.1	8.6	8.7	9.1	9.3	9.8
Barbados	8.5	9.5	10.0	11.1	12.2	13.6	14.1	14.8	15.3	14.4	13.7
Guyana	6.7	5.8	5.2	5.4	5.3	5.5	5.7	5.7	5.9	6.1	6.3
Jamaica	5.8	6.3	6.6	8.1	8.5	8.5	9.3	9.4	10.0	9.5	9.3
Trinidad and Tobago	6.1	6.1	5.9	5.7	6.7	7.6	8.1	8.0	8.7	8.9	9.6
Belize	6.0	6.2	6.4	6.4	6.5	6.8	6.3	6.1	6.2	6.1	6.0
Bahamas	6.6	6.4	5.8	5.4	5.5	5.9	6.3	6.4	6.6	7.1	7.9
Netherlands Antilles	8.8	7.7	7.3	7.4	8.0	8.6	9.3	9.9	10.2	10.5	11.3
Suriname	8.4	7.2	6.2	6.0	5.7	5.8	6.3	6.3	6.8	7.5	8.1

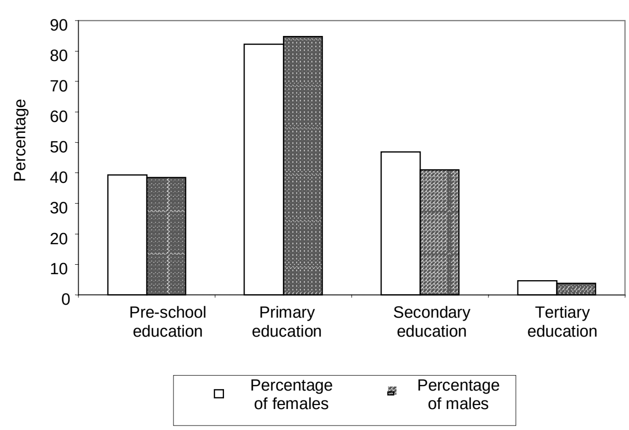
Source: United Nations, *World Population Prospects: The 1998 Revision*. *Comprehensive Tables*, vol. 1 (ST/ESA/SER.A/180), New York, Population Division, Department of Economic and Social Affairs, 1999.

Migration, both within the subregion and to countries elsewhere in the world, has continued to influence the demographic profile of the Caribbean. Most of the skilled workers who emigrate go to Canada, the United States and the United Kingdom. The number of emigrants to the United States exceeded 750,000 in the 1970s and 1980s. It has been estimated that 3.5 million emigrants from the Caribbean were living in that country at the beginning of the 1990s, with the number increasing to 4.1 million by the end of the decade. Migration within the Caribbean is generally from countries with lower growth to those with higher growth, since the main objective is to find work. An extreme example of this is the case of Montserrat, where the migration prompted by a volcanic eruption reduced the population from 10,630 inhabitants in 1991 to just 4,000 in 1998. Another factor that has affected the demographic profile of the Caribbean countries is the dramatic effect of the AIDS epidemic. According to estimates by the Caribbean Epidemiology Centre, AIDS is responsible for 60% to 80% of all deaths in the 25 to 34 age group, with high economic and social costs for the countries of the Caribbean.

The changes in the subregion's production profile, with the manufacturing and service sectors gaining ground at the expense of agriculture, have prompted growing numbers of workers to migrate from rural to urban areas in search of better job opportunities. On average, the urbanization rate increased from 38% in 1975 to 45% in 2000. Trinidad and Tobago has the highest proportion of its population living in urban areas (65%). The size of households has also been falling, and households headed by women still represent a high proportion of the total, ranging from 22.3% in Belize to 43.9% in Barbados.[12]

The 1990s saw substantial improvements in gender equity. One indicator of this is the change in the school enrolment rates of the two sexes (see figure VIII.2). In contrast to the situation that prevailed in the past, girls now make up at least half the student population at all levels of the educational system, and in fact there are currently more females than males at the secondary and tertiary levels.

Figure VIII.2
THE CARIBBEAN: MALE AND FEMALE ENROLMENT RATES
(Percentages)



Source: United Nations Educational, Scientific and Cultural Organization (UNESCO), *World Culture Report, 1998: Culture, Creativity and Markets*, Paris, 1998.

Thanks to better education, and to the laws against sex discrimination that have been enacted and enforced in most of the countries, women have been able to join the workforce in greater numbers and, in general, to improve their social and economic situation. However, female unemployment levels remain high and few women hold positions in government or the legislature. In the mid-1990s, 14.3% of all parliamentary positions were held by women. Although this is a significant increase on the percentage seen at the end of the 1980s (6.6%), it is still low. Nor did women's participation in the labour force improve much during the decade. According to estimates by the International

[12] ECLAC, on the basis of national figures.

Labour Organization, in 1996 women represented 44% of the workforce but held only 41% of jobs (ILO, 1997). Generally speaking, women are most likely to hold technical, commercial and service jobs. At the same time, recent figures show that 25% of all own-account workers in the Caribbean are women.

Although social indicators have tended to be better in the Caribbean countries than in most of Latin America, the severe recessions seen in several Caribbean economies and the restructuring and adjustment measures taken as a result may have narrowed the gap. The current growth model may also have caused poverty to worsen in some cases, although its incidence varies widely across countries (see table VIII.7). It is estimated that the proportion of the population living below the poverty line is 43.2% in Guyana, 34.6% in Belize and 34.2% in Jamaica, whereas in Barbados the figure is only 8%. Most of the countries have adopted poverty eradication plans, including job creation and training programmes.

Table VIII.7
SELECTED CARIBBEAN COUNTRIES: ESTIMATED POVERTY LEVELS

Country	Percentage
Barbados	8.0
Guyana	43.2
Jamaica	34.2
Trinidad and Tobago	21.2
Belize	34.6
Antigua and Barbuda	12.0
Dominica	33.0
Grenada	20.0
Montserrat	…
Saint Kitts and Nevis	15.0
Saint Lucia	25.1
Saint Vincent and the Grenadines	17.0
Bahamas	5.0
Suriname	47.0

Source: World Bank, “Caribbean Countries: Poverty Reduction and Human Resource Development in the Caribbean”, Report No. 15342-LAC, Washington, D.C., 14 May 1996.

The characteristics of social security systems vary from country to country, but a common feature is that they are financed by the State. Barbados is the only country whose system includes unemployment insurance. The others typically provide medical insurance, transfers to the indigent and retirement pensions. The coverage of older persons is still inadequate in several of the Caribbean countries, examples being Belize and Grenada, where barely 10% and 5%, respectively, of the older population receive social insurance benefits. Private pension plans are increasingly common, but they are still at an early stage of development, and they usually only benefit people in the upper income brackets. Private medical insurance is also very limited. In 1997, only 115 people out of every 1,000, on average, were covered by this type of insurance. Public spending on health and education tends to be higher in the Caribbean countries than in Latin American countries. According to ECLAC estimates, for example, average public expenditure on health during the first half of the decade, expressed as a percentage of GDP, was 4.1%, 3% and 2.6% in Barbados, Jamaica and Trinidad and Tobago, respectively, whereas in Brazil and Chile it was 2.3% and 2.5%. Expenditure on education in Belize, Jamaica and Saint Lucia at mid-decade was 7.2%, 7.5% and 9.8%, while in Chile, Costa Rica and Uruguay the proportions were just 3.1%, 5.8% and 3.2% of GDP.

5. The environment and sustainable development

Most of the countries in the Caribbean subregion are fragile island ecosystems that are highly vulnerable to environmental degradation. The rise of tourism —which has become a mainstay of the economy in many of these countries— and the concentration of hotels and tourist facilities along beaches have altered coastal ecosystems and led to increased pollution and more rapid destruction of marine ecosystems. Another aspect of environmental degradation is the advance of deforestation, with forest cover decreasing from 20.4% of the total land area in 1990 to 18.7% by the middle of the decade. The average annual deforestation rate was 1.7% over the period, although there were wide variations, a figure of 7.2% in Jamaica contrasting with very low rates in Belize, Guyana and Suriname (see table VIII.8).

Table VIII.8
CARIBBEAN ISLAND STATES: ANNUAL RATE OF DEFORESTATION, 1990-1995

Country	Annual rate
Jamaica	7.2
Trinidad and Tobago	1.5
Saint Lucia	3.6
Bahamas	2.6
Caribbean island States	1.7
Central America and Mexico	3.0
Tropical countries of South America	0.6
World	0.3

Source: ECLAC, on the basis of information from the FAO “Faostat Forestry” database.

The Caribbean countries' heavy reliance on income from tourism, and the fear of losing this important source of foreign exchange, have led their governments to develop and implement programmes aimed at halting environmental degradation. Among other measures, these programmes include provision for sewerage systems, management of coastal areas and plans for protected land and sea areas. In the 1990s, some countries (Jamaica and Trinidad and Tobago, among others) also enhanced their environmental management capabilities by setting up specialized institutions. In other countries, however, responsibility for environmental management continues to be fragmented among a large number of ministries and other institutions. Environmental management relies essentially on regulation, and it tends to be undermined by the existence of various kinds of taxes and subsidies that have negative effects. On the other hand, increasing community involvement in the conservation of natural resources is a positive trend. Examples include measures to protect the turtle population in Trinidad and Tobago and the management of national parks in Jamaica and of marine areas in Saint Lucia.

Adoption of the Programme of Action for the Sustainable Development of Small Island Developing States has made an important contribution to the quest for sustainable development in the Caribbean. This programme sets forth a series of development strategies and principles for protecting the fragile environment of such States within an overall development strategy. The damage inflicted year after year on economic and social infrastructure by hurricanes and tropical storms is another cause for concern. The subregion was hit by seven hurricanes in the 1990s. The small island States of the Caribbean regard the Programme of Action as an instrument that provides them with a general reference framework for the implementation of sustainable development initiatives with a particular focus on the environment. Since its recommendations are only general in nature, however, it does not give the authorities the specific tools that are needed if it is to become a more practical and effective instrument.

The countries of the subregion believe that, when the Programme of Action is applied, the highest priority should be given to coastal and marine resources, natural and environmental disasters and tourism. A lack of funds, at both the national and regional levels, is the most commonly cited obstacle to implementing this programme. At the national level, the most serious obstacles are limited human resources, lack of training and the absence of a comprehensive approach to problems.

One of the lasting benefits that the process of implementing the Programme of Action has brought is an understanding of different aspects of sustainable development. As a result, region-wide environmental and socio-economic problems and projects have been clearly identified. Furthermore, governments and civil society have begun to respond to the needs identified in the Programme of Action by forging new cooperative ties of unprecedented breadth and depth. The contribution of civil society and the private sector to setting and attaining Programme objectives (for the joint management of natural resources, the adoption of standards and the formulation of environmental policies and plans of action) has been recognized and encouraged.

Some progress has also been made in achieving greater recognition of the need to strengthen the institutional position by enacting environmental laws, building institutional capabilities, carrying out environmental impact assessments and adopting and implementing plans of action. On the international level, the governments have also made considerable efforts to secure ratification of international agreements such as the Convention on Biological Diversity and the United Nations Framework Convention on Climate Change. By mid-1997 the former had already been ratified by all the small island developing States of the Caribbean.

At the regional level, the most concrete expression of the Caribbean countries' efforts to understand the nature of the problems involved in applying the Programme of Action is the model devised for coordinating the process and contributing to its implementation in general.[13] As several of the governments have pointed out, many of the activities envisaged by the Programme had already been initiated prior to its adoption and have been carried out as part of national sustainable development plans. Nevertheless, the Programme of Action has influenced these activities by giving them renewed impetus, helping to bring a more comprehensive approach to their execution and to the formulation of new projects and programmes. The recent expansion of the Programme to include economic and social areas opens up new opportunities for practical action.

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[13] The components of the model are a provisional joint Secretariat (formed by the ECLAC and CARICOM secretariats), the Presiding Officers of the small island developing States, the Inter-institutional Group (made up of various organizations based or represented in the region) and a joint programme of work, based on the chapters into which the Programme is divided, which was formally adopted at the same ministerial meeting. Within the provisional joint Secretariat, ECLAC acts as the operational or technical secretariat, while CARICOM is responsible for activities related to the dissemination of policy.

Chapter IX

The restructuring of national territories

During the 1990s, the economic, social and political geography of the region's countries underwent significant changes. New areas were occupied and large numbers of people moved among existing urban and rural settlements, making for new patterns of population distribution within countries. Economic activity went into crisis in some areas and expanded vigorously in others, so that large changes took place in the geographical location of production processes. Public-sector decision-making, traditionally centralized and concentrated in capital cities, increasingly spread to subnational political and administrative bodies. Innovations in transport and communications, and the associated infrastructure investments, made distance less of a challenge. In short, the human geography of the Latin American and Caribbean countries underwent major structural changes.

Among the many factors that shaped this restructuring, the most important was globalization. As economies opened up to the outside world, flows of capital, goods and services were increasingly detached from their own territorial bases. These conditions have given rise to a new geography in which territories that have won a competitive position in the world economy (winning zones) exist, side by side, with others that have lost ground (losing zones). The presence of large commercial and financial conglomerates in the cities and of agro-industrial, mining and tourist complexes in the countryside whose success is linked to external investment and demand are visible manifestations of the impact of globalization on national territories.

Increased trade among the countries of the region was a second factor that contributed to territorial restructuring. The results of these integration efforts have included systematic improvements to transport and communications infrastructure in border areas, joint implementation of energy megaprojects, the creation of multinational eco-tourism circuits and the enactment of common standards for trade in goods and services. Continued success in resolving border disputes has stimulated trade, given rise to production and environmental protection projects and facilitated individual freedom of movement.

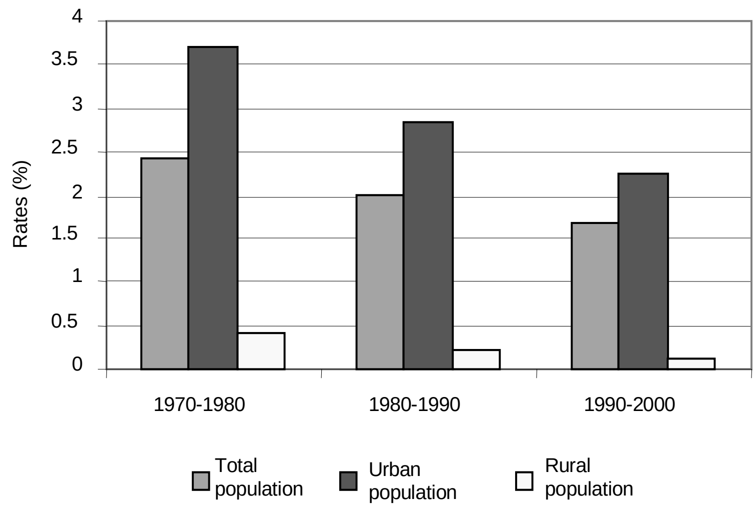
A third factor was the formulation and execution, within the context outlined above, of public policies designed to respond to the strategic challenge raised by the need to establish and promote a form of territorial organization that served the needs of the current development model. At the same time, this organization had to deal with conflicts arising from the new territorial structure, in particular those related to the uncertain future of losing areas and to clashes of interest in winning areas.

A very important endogenous force, and the fourth factor to shape the restructuring process, was the increasing power of action enjoyed by social actors operating at the subnational level, something that was closely linked with increasing decentralization of the State. Local leadership, local cultural identity and local actors' powers of action and negotiation played a decisive part in increasing the benefits of restructuring in some areas and attenuating its negative effects in others.

1. Population distribution and geographical mobility

Despite continuing centrifugal trends in the region's settlement dynamic, the traditional pattern of concentration still holds sway, with more than two thirds of the inhabitants of Latin America and the Caribbean living in less than one fifth of the region's land area. More importantly still, urbanization continued to advance during the 1990s, although at a slower pace than in previous decades, when the growth rate of the urban population averaged more than 3% a year (see figure IX.1). Because of this continued growth, the region's population remained the most urbanized in the developing world: the proportion of people living in cities, at 73.4%, was more than double the level in Africa (34.9%) or Asia (34.7%), and only one percentage point less than in the developed countries (74.5%).

Figure IX.1
LATIN AMERICA: AVERAGE ANNUAL GROWTH RATES OF THE TOTAL, URBAN AND RURAL POPULATIONS, 1970-2000



Source: ECLAC-CELADE, "Latin America: Urban and Rural Population Projections, 1970-2025", *Demographic Bulletin*, year 32, No. 63 (LC/G.2052; LC/DEM/G.183), Santiago, Chile, March 1999.

From this picture it is clear that the economic and social adjustments and changes that have occurred in the region since the 1980s have not altered the structural factors that favour concentration in urban areas. On the contrary, today's cities offer new location factors that help in the quest for international competitiveness, such as advanced production services, human capital and know-how, and a broad array of public and private services.

(a) The heterogeneity of human settlements

Although the urban population rose everywhere, there continued to be great disparities across countries in terms of their patterns of urbanization. In one group of countries in Latin America (Argentina, Chile, Uruguay and Venezuela) and the Caribbean (Jamaica, Puerto Rico and Trinidad and Tobago), urbanization continued slowly, to the point where cities housed more than 85% of the total population. The urban population grew at slow or moderate rates of between 0.9% and 2.6% a year, while the rural population decreased as a result of emigration flows that were small in absolute terms, but significant in relation to the population of origin.

In a second group of countries (Bolivia, Brazil, Colombia, Cuba, Dominican Republic, Ecuador, Mexico and Peru), which taken together account for the bulk of the region's inhabitants, the urban population was over 60% of the total but did not exceed 80%. In this group the rate of urbanization declined, demographic growth in urban areas slowed to about 2% a year, and the rural population tended to grow very slowly, stagnate or even decrease. In the remaining countries, which are numerous but do not have large populations, urbanization was rapid. The urban population of this group grew more slowly during the 1990s than it had in the past, but annual rates still averaged 2.5% or more, while the rural population grew by between 0.5% and 2.4% a year as a result of natural growth, which offset the impact of net emigration from the countryside.

As regards urban population growth, the tendency seen in the 1980s consolidated and intensified during the 1990s. Because of the enormous size difference between the urban and rural populations, the cities' gains from rural-urban migration became steadily smaller compared with their gains from the net balance of births and deaths within the urban areas themselves. The case of Brazil illustrates this: whereas in the 1980s about 42% of the country's urban growth was the result of net transfers from the countryside, in the 1990s these accounted for only 33% of total urban growth.[1] Higher degrees of urbanization tend to relegate migration from the countryside to an even more secondary position. In Chile, for example, it accounted for only 10% of urban growth between the mid-1980s and the mid-1990s.

Examination of demographic changes in the 52 cities that had more than a million inhabitants at the end of the 1990s reveals that this group saw exceptionally fast growth up until 1970, when it accounted for 46% of the urban population (see table IX.1). The 1980s were a particularly difficult time for these cities' businesses and people, and as a result their share of the total urban population fell from 46% to 43%, while their population growth slowed from an annual average of 3.6% in the 1970s to 2.3% in the 1980s. In the 1990s, their population growth rate remained virtually unchanged and their share of the total urban population remained at 43%. By then most of these cities had reached an advanced

[1] The figures are for growth in and migration by the population aged 10 and over. They were calculated by applying the intercensal survival ratios methodology and they cover the period between the 1991 census and the 1996 survey.

stage in the demographic transition;[2] at the same time, the factors that had been making them less attractive in the previous period, and had even resulted in net emigration, were no longer operating vigorously.

Table IX.1
LATIN AMERICA: 52 CITIES WITH 1,000,000 OR MORE INHABITANTS, 1950-2000

Year	1950	1960	1970	1980	1990	2000
Number of cities	52	52	52	52	52	52
Population (in thousands)	28 747	47 708	74 068	105 837	133 584	166 952
Percentage of total population	17.3	22.0	26.1	29.5	30.5	32.4
Percentage of urban population	41.7	44.6	45.5	45.5	42.9	43.0
Growth rate[a]		5.1	4.4	3.6	2.3	2.2

Source: Calculations by the Population Division - Latin American and Caribbean Demographic Centre (CELADE); United Nations, World Urbanization Prospects: The 1996 Revision. Estimates and Projections of Urban and Rural Populations and of Urban Agglomerations (ST/ESA/SER.A/170), New York, 1998. United Nations publication, Sales No. E.98.XVIII.6.

[a] Average annual growth rate for the decade.

As can be seen in table IX.2, larger metropolitan cities, i.e. those with a population of 5 million or more, are home to one in every five of the region's city dwellers. In the 1980s these cities also felt the negative impact of deindustrialization (particularly Buenos Aires, Mexico City and São Paulo) and of the retreat of the public sector as an employer, but in the 1990s they showed signs of demographic recovery, thus demonstrating their capacity to adapt to the new conditions of global competition.

Table IX.2
LATIN AMERICA: CITIES WITH 5,000,000 OR MORE INHABITANTS, 1950-2000

Year	1950	1960	1970	1980	1990	2000
Number of cities	1	4	4	4	6	7
Population (in thousands)	5 042	12 199	32 588	45 046	62 110	77 992
Percentage of total population	3.0	5.6	11.5	12.5	14.2	15.2
Percentage of urban population	7.3	11.4	20.0	19.3	20.0	20.1

Source: Calculations by the Population Division - Latin American and Caribbean Demographic Centre (CELADE); United Nations, World Urbanization Prospects: The 1996 Revision. Estimates and Projections of Urban and Rural Populations and of Urban Agglomerations (ST/ESA/SER.A/170), New York, 1998. United Nations publication, Sales No. E.98.XVIII.6.

In these large cities —some of them regarded as "global cities" because of their size and economic importance— two tendencies became

[2] In other words, fertility had already reached low levels, so its effect in reducing population growth was no longer as great.

firmly established. Firstly, population growth rates in their urban cores continued to be low, owing to their advanced stage in the demographic transition coupled with low or negative net migration.[3] Secondly, they tended to extend their reach yet further, acting as the social and economic nuclei for urban centres with which they had no actual geographical connection (Rodríguez and Villa, 1997).

This latter phenomenon was due not only to the addition of new territory to existing urban areas, or the expansion of road networks to facilitate movement, but also to the displacement of industry from city centres to outlying areas and the emergence of subcentres that tended to develop their own relatively autonomous living and working dynamic. As metropolitan areas were shaped by market forces and unregulated settlement processes, they became much more complex to manage. This was particularly true of areas where there were no metropolitan government authorities or local authority coordination mechanisms. As has already been indicated, this type of expansion meant that cities were not able to resume the dynamic growth they once enjoyed. Indeed, there could be no prospect of this, given low fertility rates and the steady decline in immigration.[4]

Although there is not enough information available to identify the dominant trend in the region, it is clear that there is cause to be concerned about socio-spatial segmentation in cities. Access restrictions have resulted in the occupation of land areas that have an important function in regulating torrential watercourses and stabilizing hillsides, making settlements more vulnerable to natural disasters,[5] and in the appropriation of abandoned industrial sites or waste dumps for residential purposes. Moreover, socio-spatial segmentation perpetuates poverty and isolates wealth, maintains and even deepens socio-economic inequalities and makes it harder to exercise truly democratic citizenship.

Medium-sized cities saw dynamic population growth although, as was the case with other types of cities, expansion was not as rapid as in

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[3] The demographic transition, which is occurring nationwide in most of the countries, is examined in chapter 6.

[4] Moreover, it would appear that some metropolitan areas have still not regained their power to attract immigrants. For example, population flows between the metropolitan area of Mexico City and the four other macroregions that are identified in the country resulted in the former losing a net 150,000 or so people during 1992-1997 (Conapo, 1999). Nonetheless, net outward migration was much greater in 1985-1990, which explains the rise in Mexico City's growth rate from an annual average of 0.7% in the 1980s to 1.5% in 1990-1995.

[5] This is illustrated by the devastation caused to several of the region's cities recently by climatic phenomena (such as El Niño and La Niña and the hurricanes that have ravaged Central America and the Caribbean) and earthquakes.

previous decades (Jordán and Simioni, 1998). In the 1990s, a number of them began to experience some of the problems of large cities. Evidently, medium-sized cities are not guaranteed a promising future simply by virtue of their size; their viability depends on their economic underpinnings,[6] including the extent to which they are integrated into the global economy, the types of linkages they have with the national and regional urban system and their ability to capitalize on comparative advantages.[7]

To sum up the situation in the region's urban system, the large cities showed their ability to rebound from the socio-economic setbacks of the 1980s, although severe problems remained. The tendency of metropolises to extend their influence beyond their traditional limits and radii of action intensified, creating enormously expanded areas of urban interaction. The importance of medium-sized cities as engines of urban growth was confirmed. As a result, they face a number of challenges. They need to ensure they do not reproduce the problems already experienced by large cities, while striving to match their success in fomenting and supporting productive activity (ECLAC, 1998e).

The rural population, meanwhile, was virtually stagnant, as figures IX.1 and IX.2 show. Since trade liberalization benefits the modern export sector but gradually excludes sectors that are poorly capitalized or located on marginal lands (Dirven, 1997), the future outlook for the retention of population in the Latin American and Caribbean countryside does not look as promising as the importance of agriculture and primary products in regional exports might suggest. Modern agriculture is not typically labour-intensive, and even when it is, its seasonal nature discourages permanent settlement in the countryside. Moreover, campesinos are often lacking in the skills and specialist know-how required by modern farming operations, which thus tend to recruit elsewhere. The fact that the rural population continues to be widely scattered militates against the creation of settlements large enough to provide access to social services, inhibits the creation of links with the public sector and the urban world, and encourages emigration.

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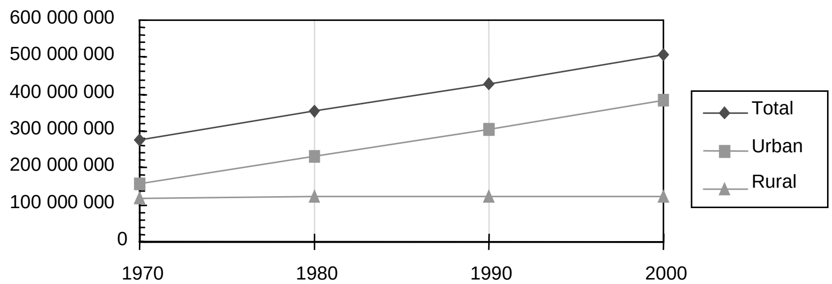
6 To these factors should be added the quality of management and the level of coordination among the most important actors.

7 In relation to production, the supply of services, the availability of infrastructure, the generation of information and know-how, or living conditions.

Figure IX.2
LATIN AMERICA: TOTAL, URBAN AND RURAL POPULATIONS, 1970-2000
(Millions of inhabitants)



Source: Population Division - Latin American and Caribbean Demographic Centre (CELADE); Spatial distribution and urbanization in Latin America and the Caribbean (DEPUALC) project (1999).

(b) Changing migratory patterns

The consolidation of urban predominance has gradually led to changes in migratory patterns. As rural-urban migration has declined in importance everywhere, migration among urban areas has taken on greater proportions. This situation has not been fully grasped by decision makers, who still tend to regard migration from the countryside as the primary cause of urban ills (Villa, 1996).

Another form of mobility that has gained importance is inter-metropolitan migration, i.e., people moving from one large city to another, a phenomenon whose characteristics and selectivity make it a factor for spatial, demographic and socio-economic differentiation. Although the evidence regarding this trend is somewhat fragmentary, figures from Mexico provide some illustration. In the period 1950-1960, only 9% of all interstate moves were between the Federal District and the state of Mexico, whereas during the period 1990-1995 such moves accounted for 22% of the total (Conapo, 1998).[8]

Moves between rural areas were connected with economic restructuring processes. In many cases they were temporary and were

[8] The great majority of these moves were within the metropolis, since the state of Mexico includes the outlying municipalities of the metropolitan area of Mexico City. Survey-based estimates indicate that at the beginning of the decade 19% of interstate migration in Mexico took place within the Mexico City metropolitan area (Conapo, 1997).

undertaken for the purposes of seasonal working or itinerant agriculture by landless campesinos in areas that were relatively unexploited and often ecologically vulnerable.[9]

The settlement of new areas within countries, however, is still a major tendency. This process continued in the region during the 1990s, especially in the Amazon and Orinoco river basins. By contrast with what had happened in the past, these movements were not driven by official land settlement programmes, but rather by the attractive prospects offered by opportunities for exploiting natural resources and energy sources, and by infrastructure projects.

The growing importance of the trade in goods and services among the countries of the region has also helped consolidate a number of border areas. The vigorous population growth that has taken place in a vast area of eastern Paraguay —including, most notably, the department of Alto Paraná, whose share of the national population increased more than tenfold between 1950 and the mid-1990s (Jordán and Simioni, 1998)— illustrates the attraction that can be exerted by border externalities (the border in this case being the one with Brazil) and by opportunities to exploit natural and energy resources.

The Mexican federal states of Baja California and Quintana Roo exemplify the convergence of forces that led to the spatial redistribution of population during the decade. Baja California is a special case among the states located along the border between Mexico and the United States[10] in that it has a subsystem of cities adjacent to the international border[11] and is structurally linked to the economy of the latter country. The economic dynamism and job growth that have been stimulated by this link and by

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9 Much of this movement is daily or temporary, as is illustrated by the fact that in 1995, 20% of the economically active population (EAP) engaged in agriculture, or some 8 million people, lived in urban areas (Dirven, 1997).

10 The northern border of Mexico is a striking case. For several decades, and particularly after 1965, the area was promoted through government measures and incentives, which appear to have worked largely by taking advantage of proximity to the United States and the fact that labour is cheaper in Mexico than in that country (González, 1999; Alegría and others, 1997; Gilbert, 1974). The emergence of a string of cities along this border has offset the traditional concentration of population and immigration flows in the central region of the country (Valle de México and the state of Morelos). This trend is confirmed by the most recent data: whereas in 1965-1970 the net migratory flow to the central region was four times greater than that to the northern border (and there was net migration from the latter to the central region), in 1992-1997 the northern border was the only macroregion in the country with a positive migration balance (Conapo, 1999). Indeed, this power to attract migration has continued despite a tendency for *maquiladoras*, which are the traditional productive backbone of the region, to be located increasingly in non-border states and municipalities (ECLAC, 1996a).

11 Tijuana, Mexicali and Ensenada are the urban centres that link this subsystem together.

public-sector measures (Alegría and others, 1997) seem to have been the principal attractions for the migrants arriving from the country's other states. Indeed, migrants now constitute half the resident population of Baja California (Conapo, 1997). Migration to Quintana Roo has been even greater,[12] but in this case the main attraction has been the opportunity to exploit the state's tourist potential.

In the border areas between Colombia and Venezuela, by contrast, the growth of trade has not had a significant impact on the activities that have traditionally been important. There have not been any notable changes in these areas, even though trade between the two countries is one of the most dynamic axes of commerce within Latin America and numerous plans and work agendas have been drawn up over the last two decades.

2. The politics and financing of decentralization

Since the 1980s, and particularly in the 1990s, decentralization has come to play a fundamental role in the public policies of the region. There are two reasons for this. The first is political: decentralization is seen as a means of bringing government closer to the people, and thus it is part of the current movement towards democratization. The opportunity to promote effective citizen participation at the local level is one of the arguments for delegating responsibilities to regional and local governments. The second reason is economic: as part of the State restructuring process, decentralization is seen as a way of increasing the efficiency of service delivery, especially in the case of social services, which do not offer much scope for economies of scale. The greater flexibility of local management, and better access to information about local preferences and needs, further support the argument that decentralized service delivery is more efficient.

In the 1990s, the growing importance of decentralization initiatives, enshrined both in constitutional reforms and in legal statutes, translated into significant changes in the structure of the public sector. Decentralization resulted in a State that was closer to the community and gave new importance to the role of local government and administration in solving problems and creating development opportunities. Municipal and regional governments and administrations became better equipped to take responsibility for managing and providing basic services and implementing or allocating public spending in their areas.

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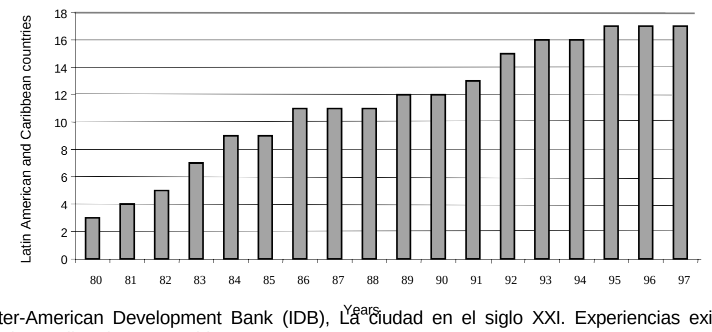
[12] In the mid-1990s it was estimated that 60% of Quintana Roo's population came from other states (Conapo, 1997).

As a general rule, decentralization is always part of a broader process of State reform, one that is not confined to the sphere of public management alone. This entails substantial changes to government and administration, civil society and political parties, which are the traditional mechanisms for coordinating the interests of the community. As a result, it is difficult for the process to be carried forward and evaluated in isolation; it only makes sense when viewed more broadly as part of the historical matrix of relationships among the components referred to.

These developments, then, require changes to political cultures whose characteristics are determined by the political structure in place and by the peculiarities specific to unitary and federal States. These differences in political culture determine which subnational level becomes the politico-administrative unit in the decentralization process: regions, states (provinces or departments), or municipalities (local governments). Furthermore, those differences also determine what particular form is taken by the territorial authority, either a delegated governing and administrative body that has jurisdiction over a territory, or a decentralized entity. Except in some countries that have a federal system, the municipality has very much tended to predominate, although interest has recently been shown in the intermediate spheres. Thus, the main political manifestation of decentralization has been the increase in the number of Latin American countries with directly elected mayors, from three in 1980 to 17 in 1997, as shown in figure IX.3. Since then, however, more leaders have begun to be directly elected at the intermediate levels (states, provinces or departments) in several of the region’s countries.

This process has been accompanied by the development of new mechanisms for promoting greater citizen participation in local affairs through town councils and open forums. The favoured approach has been one that focuses on accountability, citizen control and planning of a kind that contributes to the building of social capital, the development of mutual trust among the actors involved and the construction of governability. The increasing assertiveness of local actors, whose role is far more complex than before, is closely connected with this redistribution of political and administrative power among territorial entities. This trend has empowered subnational territories, political and administrative units of different sizes, towns and cities and ethnic territories, which no longer just passively experience the changes brought about by territorial restructuring but have become active partners in economic and political processes at the national and international levels.

Figure IX.3
THE POLITICAL ASPECT: DIRECTLY ELECTED MAYORS, A GOOD INDICATOR OF DECENTRALIZATION



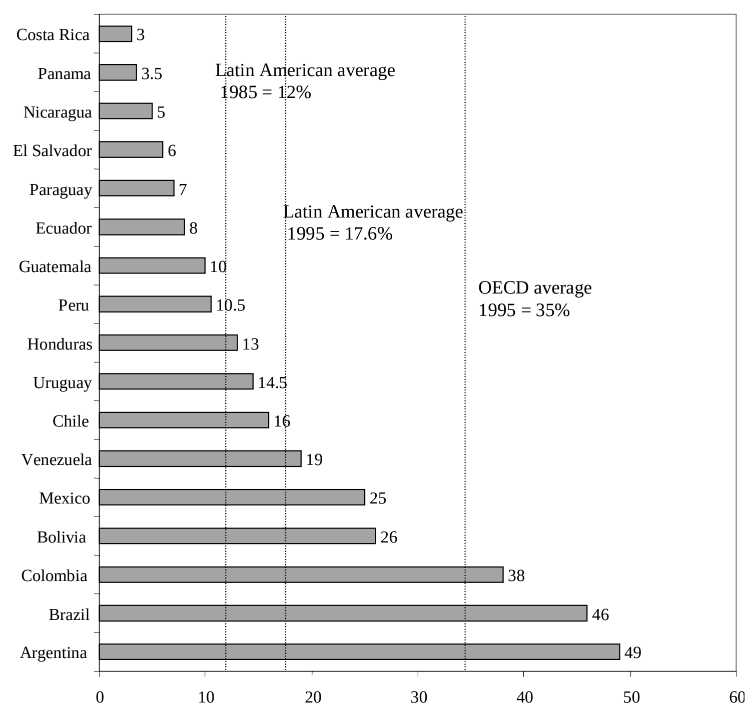
Source: Inter-American Development Bank (IDB), *La ciudad en el siglo XXI. Experiencias exitosas en gestión del desarrollo urbano*, Washington, D.C., 1998.

From the economic standpoint, one of the effects of decentralization has been that territorial considerations, as well as sectoral ones, have become important for the delivery of services, the assumption of financial responsibility for and social control of spending, the formulation of public policies and coordination among the different territorial actors. Although this is very recent, the more dynamic local and regional governments have also been taking more and more responsibility for the local economy, acting as facilitators and promoters of alliances with the private sector so that initiatives to improve business competitiveness and the dynamism of the local economy can be negotiated and consolidated.

The evidence suggests that decentralization has been taken furthest in the area of expenditure, reinforcing the growing importance of subnational governments as they take direct responsibility for local public spending. On the revenue side, by contrast, local tax collection and the modernization of subnational tax systems have progressed slowly, making for a political economy that is not conducive to a healthy and sustainable decentralization process, which has to be based on greater fiscal autonomy and responsibility in general at the local level.

As figure IX.4 shows, the percentages of public spending undertaken at subnational levels in the region’s countries averaged 17.4% in 1995. However, this simple measure of the degree of decentralization fails to reflect significant differences between countries. The indicators of one group (Argentina, Brazil and Colombia) are higher than the average for the member States of the Organisation for Economic Cooperation and Development (OECD) (35%); a second group (Bolivia, Mexico and Venezuela) has levels somewhat above the average for Latin America; in a third group (Chile and Peru, among others), local spending is below the regional average but above 10%; and lastly, there is a group of countries (Paraguay and most of the countries of the Central American isthmus and the Caribbean) where local spending is lower than 10%. As a result of the decentralization initiatives that have been undertaken, however, it is estimated that by the end of the decade the regional average was about 20% of public spending. Although this percentage is markedly higher than it was in the mid-1980s (12%), it continues to be substantially lower than the average for the OECD countries.

Figure IX.4
LOCAL GOVERNMENT SPENDING IN LATIN AMERICAN COUNTRIES
(Percentages)



Source: Gabriel E. Aghón and Herbert Edling (comps.), Descentralización fiscal en América Latina: nuevos desafíos y agenda de trabajo (LC/L.1051), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 1997, and Inter-American Development Bank (IDB), *La ciudad en el siglo XXI. Experiencias exitosas en gestión del desarrollo urbano*, Washington, D.C., 1998.

Because little use is made of locally-based taxes in the municipalities of the region, however, the extent of municipal governments' and administrations' real fiscal autonomy and responsibility towards their communities is less than is assumed in decentralization proposals, something that is reflected by the fragile situation with respect to local financing. The limitations stem from the difficulty of creating larger and better local tax bases and from legal restrictions which leave local governments little scope for action in this area. Thus, strengthening local tax systems is unquestionably one of the most urgent priorities for the countries of the region if decentralization is to be sustainable. Again, while local borrowing has opened up greater opportunities for financing public investment, it has also brought greater risk to local financing structures. For this reason, a framework is needed to regulate local government access to credit in order to curtail the negative effects that this may have on macroeconomic stability, local finances and political confidence in the decentralization process itself.

The decentralization process has also come up against problems and limitations. First of all, in a number of cases (Argentina, Brazil and Colombia) it has led to increases in consolidated public spending that have not always been matched by revenue growth. Secondly, decentralization has given rise to a gradual transfer of responsibilities to municipalities, including the provision of basic services (health, education and environmental sanitation) and, on occasion, for social and transportation infrastructure investment. Because of differences in the scale of the resources available in more and less developed regions, often due to historical inertia in the allocation process that the new transfer systems have not fully corrected, and to differences in administrative capabilities, there has been a tendency for increased inequalities in the availability and quality of State services. This is the reason for all the government efforts and legislative initiatives that have been undertaken to revise transfer systems with a view to achieving greater efficiency and, even more importantly, greater equity in decentralized social spending. Thirdly, there is not always a clear division of powers among the different spheres of government or an adequate system for following up and evaluating decentralized spending.

The evidence available confirms both the need to strengthen the institutions and human resources that decentralization requires and the desirability of establishing systems to follow up and evaluate this process. In response to the difficulties outlined, the countries of the region have been introducing a variety of innovations and best practice in the different areas that are critical to decentralized management.[13] Changes of this kind have included redesign of transfer systems, some successful attempts to modernize local tax collection and establish borrowing rules, decentralized management of social services, schemes for greater citizen participation and

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13 This is discussed in greater detail in ECLAC / GTZ (2001).

social control of spending and alliances between the public and private sectors, as shown in box IX.1. If these innovations are shared and learnt from, decentralization may progress more vigorously and be implemented more thoroughly in the countries of Latin America and the Caribbean.

Box IX.1
INNOVATION AND PROGRESS WITH DECENTRALIZATION: SOME SUCCESS STORIES

The countries of the region have adopted a variety of practices for dealing with the difficulties involved in the transition towards more decentralized administration. Some of these approaches are described below:

Improving local tax collection. Property taxes: the experience of cities such as Bogotá (Colombia), La Paz (Bolivia) and Quito (Ecuador) show that there are some interesting options, such as the use of self-appraisal as the basis for assessment of these taxes, complemented by greater local autonomy, efficient tax administration and greater transparency in the way the revenue collected is ultimately spent.

Redesign of transfer systems. In some of the region's countries efforts are being made to overhaul these systems by introducing criteria that take into account such aspects as the local distribution of income and poverty, local tax-collecting efforts, administrative efficiency and service costs. This is one of the most important issues on government agendas for the coming years.

New sources of financing and greater private-sector involvement. The increasing use of contribution payments for improvements in some large and medium-sized cities in Argentina, Colombia, Ecuador, Mexico and Peru, among others, has been encouraging greater fiscal responsibility on the part of the community by reinforcing the link between local public-sector investments and the costs and potential beneficiaries of these. Efforts have also been made to mobilize private capital for the funding of projects whose local impact is undeniable, through such instruments as concession contracts. Under current laws, there is scope for use to be made of these at different levels of government in most countries.

Regulation and oversight of local borrowing. Despite restrictions on subnational access to capital markets, the idea of issuing bonds locally is beginning to arouse interest, especially in the medium-sized cities and metropolitan areas of the region. Again, controversy over borrowing has led to calls for this to be managed more responsibly with a view to minimizing its potential macroeconomic effects. Perhaps the most striking example of progress in this area is the recent law on subnational borrowing in Colombia, which regulates access to credit by means of a rating system based on the solvency of the local administrations concerned.

(Continued)

Box IX.1 (concluded)

Community participation in spending decisions and oversight. There are successful instances of citizen involvement with local budgets in various Brazilian cities, especially Porto Alegre, and also some towns in Argentina, Chile and Colombia, where the emphasis has been on transparency and the political responsibility of the communities and authorities in regard to the prioritization of investments and the execution and follow-up of decentralized public spending.

Decentralized management of social services. There have been some successful experiments with the provision of social education and health services, including mixed public-private cooperation schemes, measures to strengthen municipal partnerships and new forms of community oversight and participation, the aim in all cases being to achieve better local service provision at a lower cost for the town or city concerned.

Promotion of local economic development. Alliances between the public and private sectors. Developments of interest in this area include joint local initiatives between the public and private sectors to create business training centres, support technological innovation and foster local economic potential, especially in Argentina, Brazil and Colombia, but also in other countries.

Source: Gabriel E. Aghón and Gerold Krause-Junk, Descentralización fiscal en América Latina. Balance y principales desafíos (LC/L.948), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 1996.

Although there is still a long way to go, the decentralization process embodies a quest for comprehensive, more democratic and equitable local development that could foster economic progress in towns and regions so that excessive concentration in large cities and their surrounding regions can be redressed.

3. Territorial heterogeneity

Historically, Latin American and Caribbean countries have always been characterized by a heavy concentration of population and wealth in metropolitan areas and the existence of marginal regions and areas with a declining economic base (coal, tin, the textile industry, coffee, etc.). Physically, economically, socially and politically detached from the rest of the national territory, marginal regions have suffered from pervasive deficiencies in transportation and communications infrastructure, low or non-existent economic growth, serious problems of land ownership and tenancy, inappropriate use and management of natural resources, poor marketing systems and serious deprivation among their campesino, settler or indigenous populations. Declining areas, meanwhile, have been characterized by an exhausted or obsolete economic base, emigration, and a stock of physical capital that does not provide an adequate basis for the logic of economic modernization implicit in State-led industrialization models. Owing to the structural nature of their problems, regions of the latter type have received considerable attention from the public sector in almost all the countries of the region.

Attempts to account for regional disparities have attributed them, on the one hand, to the logic of private capital accumulation, whereby investors have sought to maximize returns by committing their resources to vigorously growing areas, and, on the other hand, to the practice of allocating public-sector resources in such a way as to minimize the opportunity costs of capital by favouring regions in which the conditions for rapid success are in place. The most common interpretation points to a vicious circle in which population and economic activity become increasingly concentrated in metropolitan areas while marginal areas and regions with a decaying economic base continue to decline.

Public policies that have sought to reverse territorial concentration by various means have yielded only modest results because their design and execution have failed to take sufficient account of the sectoral linkages —let alone the territorial ones— operating through the urban-regional system. Even when successful, these policies have tended to punish low-income groups in well-to-do regions and to benefit upper-income sectors in the poorer regions.

(a) Regional disparities

According to the paradigm that prevailed in the 1980s, disparities in per capita income among different territories should tend to diminish over the long term. It was argued that unrestricted internal factor mobility would combine with market opening to bring about the integration of territories that had been left behind by the industrialization process. The empirical evidence available for some countries confirms that there was a tendency for disparities in per capita output among politico-administrative regions to narrow somewhat between 1970 and the end of the 1980s. This trend was most evident in Brazil, Chile and Colombia and the least so in Mexico and Peru. In both groups of countries, however, this trend was cut short and even reversed (as in Colombia) over the course of the 1990s, as can be seen in figure IX.5.[14]

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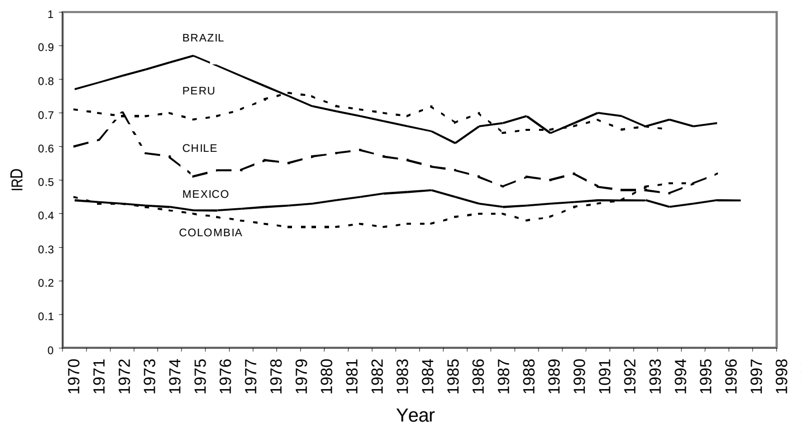
[14] The index of regional disparities used is the so-called sigma convergence (Cuadrado and García, 1995). An index value of zero signifies complete equality in the per capita output of the different regions, while a value of 1 would indicate a situation of extreme disparity. The index is defined as the square root of the sum of the squares of the differences between the per capita output of each region and the national average, divided by the number of regions.

Figure IX.5
INDEX OF REGIONAL DISPARITIES
(Per capita output)



Source: ECLAC, on the basis of official data.

A more detailed analysis shows that the convergence that took place up until 1990 was due to two main factors: firstly, a loss of dynamism in metropolitan hubs, whose rate of decline at times of recession was higher than the national average; and secondly, the emergence of vigorous growth in some territories which specialized in the production of new goods and services and thereby succeeded in participating successfully in the globalization process. The relationship between regional convergence until 1990 and the opening up and liberalization of the region's economies is questionable since, other than in Chile, these processes did not get fully under way in the countries mentioned until the mid-1980s or early 1990s.

After 1990, when these processes became more universal, economic growth in metropolitan areas picked up and the dominance of these areas in the generation of national output generally increased. These metropolitan hubs now coexist with territories in different parts of the country that have globalized by expanding their exportable output of natural resource-based products, with border territories that have been boosted by regional integration and with territories that are marginalized or excluded from international and even domestic markets.

This heterogeneity means that regional disparities need to be examined afresh. Although little or no convergence is taking place among politico-administrative units at the country level, in all cases the disparities within their borders are concealed. In other words, interregional differences are surpassed or amplified by intraregional differences, as both are just different manifestations of social inequalities in income distribution. This is true almost universally in the countries of Latin America and the Caribbean, where regions that have traditionally been "winners" contain areas and social groups that are "losers" and where, conversely, regions that have traditionally been "losers" can now show instances of successful areas and social groups (Caravaca, 1998).

As regards the region's towns and cities, two main trends can be distinguished. Firstly, certain medium-sized centres have consolidated after growing rapidly thanks to rising prices for some of their export products. Secondly, advanced services are becoming increasingly concentrated in metropolises and, to a lesser extent, in other capital cities. Indeed, the consolidation of global cities is a fundamental characteristic of the urban process in the region. The role of these cities in the movement of financial capital, coupled with their resources in the form of knowledge capital and skilled personnel, has strengthened their position as regional business centres and hence their ability to connect with the global economy.

(b) The reorientation of territorial planning and management

The processes that drove territorial restructuring greatly reduced the effectiveness of the old top-down national planning models. Instead, hopes began to be placed in a new type of planning that was more strategic and selective, that provided more long-term direction and that struck a better balance between the interests of the public and private sectors (ECLAC/ILPES, 1999). Regional and urban planning in the 1990s was characterized by this effort to bring public and private agents together so that they could improve competitiveness in the different territories, achieve higher levels of social equity and deal with crisis situations. At the same time, management at the subnational level came to be regarded as indispensable if resources were to be used efficiently, the needs of the population addressed and participation increased.

This is a clear sign that the territorial dimension is a major component of social inequality, both in itself and through its strong association with other factors that determine primary income distribution. Indeed, some studies (Martin, 1986) have demonstrated a clear correlation between politico-administrative jurisdictions, rural or urban residence, education levels, occupational categories and sectors of economic activity. Thus, social groups in different countries have their own particular combinations of characteristics in each of these respects, and the policies applied to them thus have to have very specific components to address the problems of poverty and social inequality at the territorial level.

Special mention should be made of measures to promote production activities and develop local business systems with a view to increasing productivity, the training of human resources to carry out specific processes and the use of innovation systems to promote competitiveness, which are now planned with territorial needs in mind, as well as sectoral ones (ILPES, 1998). Another indication of change is the renewed recognition being given to the value of selective public action to promote better coordinated urban systems, reduce rural dispersion and make cities, including metropolises, more competitive, orderly, and pleasant to live in.

Despite the encouraging direction of change, there are still many gaps where public action is required. Although there is no place for coercion or a return to the inflexible policies seen prior to the 1980s, most of the countries in the region lack an objective long-term vision for the use and occupation of their territory. If they are to produce a territorial structure consistent with a process of genuine economic modernization with equity that guarantees democracy and social and environmental sustainability, the policies implemented need to be comprehensive and multifaceted. Territorial planning may be seen as a sort of matrix in which the vectors represent specific fields of action in the form of policies relating to land use, decentralization, economic growth and the socio-economic development of spatial units. Taken together, these policies should ensure national consistency so that territorial decentralization is carried out in accordance with a plan that does not lead to incoherence and thence the risk that it may be reversed.

The reduced scope for central government action that has resulted from the change in the role of the State entailed by globalization and regional integration, and the increased responsibilities that decentralization brings for subnational governments and administrations, mean that it is time to develop a new concept of territory. Rather than being treated as a monolithic, homogeneous entity whose only function is to serve as a context for the agglomeration, distribution and interaction of the population and its activities, territory should be understood in all the diversity of the economic, environmental, and sociocultural situations which it contains and around which different actors organize themselves in an interplay of consensus and conflict that has to be reconciled in pursuit of a common development project.

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